THE FOUNDATION OF
INDUSTRIAL STABILITY

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BY

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PREFACE

THE broad measures of social and political government seldom permit of precise calculation. In the economic field, however, there are certain definite relationships of cause and effect in many directions, and accordingly the general economic life of a country should admit to some extent of practical regulation on clearly definable lines.

As knowledge advances, and as the attitude of civilised society to its vital problems undergoes change, it may be that the extent of the field admitting of such regulation will expand. It has already expanded since the early nineteenth century for those very reasons.

From this point of view in general there is a question of practical policy in the economic field which can be stated as follows, and which urgently demands to be answered :—Given the customs, habits and general outlook of the community, is it possible to regulate the broad foundations of a country's economic life so as to ensure the maintenance of a maximum employment for the people under the existing order; and if so, what should be the guiding principles of such regulation?

This book is directed to that one issue.

By regarding the processes of industry and commerce "in the round," so to speak, and from the point of view of the country as a whole, certain very definite conclusions emerge to indicate what must be the essential elements in any practical measures devised to secure the one purpose of bringing about and maintaining a situation of maximum employment.

The main conclusions as to principles are simple, their application is practicable and they appear to reconcile in themselves and in their implications the apparently conflicting elements in different schools of thought.

The writer has studiously avoided entering any of the fields of political controversy, and the book is merely an analysis and an argument from first principles, with the aim of reaching some practical guidance to the solution of the fundamental problem. A re-approach to the whole economic problem from first principles is not necessarily out of place to-day, seeing that twentieth-century conditions differ in some important respects from those of an earlier time. The investigation serves indeed to reveal how economic disorder has been, and is continually, brought about just because we neglect to prescribe for the newer conditions of modern industry.

A shortened form of the general argument has been drawn up at the end (Chap. VII).

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CHAPTER I

INDICATING POSSIBILITIES

The essential economic problem of the twentieth century arises from the power of the machine. If one man with mechanical help can do the work that a hundred did before, how are the other ninety-nine to be reabsorbed in economic life?

The theory of an earlier time answered this problem by saying that, if all the economic factors in industrial life are allowed free play, those who become unemployed as a first result of inventions and improvements in industrial efficiency will be in due course reabsorbed in industry by virtue of the increased demand for goods (and services) to which the improvements give rise.

Experience suggests that the increase of demand (assuming that it occurs) is normally quite insufficient, or it occurs much too slowly, to absorb the unemployed of the modern world to the extent desired. And it is not difficult to see why this is likely to be the case.

In the first place, there is the possibility that invention may proceed at too rapid a pace in relation to the economic processes which, according to the old theory, would "in the long run" bring about the desired result. And, so far from anything being done to diminish the "natural" pace of invention in the ordinary course, the pace is actually stimulated by the economic disorder itself; for the urgent pressure to absorb unemployed workers, especially in countries where there is a tendency towards rigid maintenance of existing rates of wages, gives an additional impetus to every kind of improvement in industrial efficiency with a view to maintaining and increasing, if possible, the country's competitive power in world-markets.

In the second place, to whatever extent improvements may enable an industrial unit to compete successfully in world markets, it is nearly always possible for another country to reduce prices to a competitive figure again if only wages can be reduced. Thus the mere existence of unemployment (however caused) in any country becomes an inducement in the last resort to reduce wages in that country in order to enhance the country's competitive power. And if wages are reduced there results, apart from hardship and discontent for the individual wage-earners, a reduction of purchasing power within the country; which is in turn the means of accentuating internal disorder and causing more unemployment in other directions, and so on in a "vicious spiral" of increasing disorder the whole world over.

It is not possible to establish with the certainty of mathematical proof that the fundamental source of the world's present economic disorder is, in fact, the pace of invention and improvements in industrial efficiency; but it can be shown that this cause alone would be all-sufficient to explain every step in the progressive tendency to economic catastrophe which the world has witnessed in recent years. The *possibility* that the world's accumulation of unemployment and economic disorder may originate in this one, truly fundamental, cause seems to have received too little attention.

And it is by no means a contradiction of this possibility to agree at the same time that heavy international debts, which are often stated to be the cause of present disorders, have themselves demonstrably given rise to *increased* unemployment. The international debts on account of their size have served to accentuate the effects of a disorder which previously existed and which persists; but the debts are not the true origin of the economic trouble, and their complete cancellation, though it would certainly bring great relief, will not remedy the fundamental disorder itself.

That the debts are not the origin of disorder (although they may have seriously aggravated it) admits of definite proof. But it is also readily understandable by common sense; for there can be nothing in the international debts except their size which differentiates them from other

international obligations of the same kind which arise in the course of ordinary trade and commerce.

At the least, it is true to say that the unemployment which is directly caused by inventions and improvements and the unemployment which arises perceptibly from international competition may *sometimes* be different in their nature. In the one case the direct cause of the unemployment is a potentiality of world-enrichment; in the other case, *i.e.* in those instances when the unemployment is caused merely by an international competition which succeeds only at the expense of wages, no one is the richer even potentially; on the contrary, the whole world becomes the poorer.

These considerations lend support to the common-sense view that the economic interests of different countries are not essentially divergent. The problem for each nation is fundamentally the same. Unless, however, these two very different sources of unemployment are clearly distinguished it is only to be expected that the common nature of the economic problem for all countries alike should not be apparent, and that the different national approaches to the world-problem should appear to carry irreconcilable conditions.

Again, it will be appreciated that whatever international co-operation may be necessary for the solution of the world's economic disorder as a whole, a part of the problem of unemployment—namely, that part which arises from improvements in industrial efficiency—remains also an internal problem for each country.

Whether the pace of invention is fast or not, it is clearly necessary that there should be an appropriate adjustment between the people and the conditions; *i.e.* between the nature of the employment and the earnings of individuals on the one hand and the economic conditions of the country as a whole on the other. And if the appropriate adjustment of the people to the conditions, which orthodox economic theory asserted to occur in due course, does not in fact take place, or does not take place sufficiently rapidly, we have only the one alternative. And that is deliberately to adjust the internal conditions themselves in each country in a way

that is appropriate both for the community as a whole and for the individual members.

An investigation to ascertain the nature of the "appropriate" adjustment between the people and the economic conditions within a country without taking any account at all of the complications of international trade seems, therefore, to be desirable in any case, if only to know how to deal with that part of the problem of unemployment which emerges within the country itself as an immediate result of improvements in industrial efficiency.

If, on ascertaining what is required for this purpose alone, it is found possible to bring about the desired adjustments in the actual conditions of practical life, a part at least of the problem of unemployment will have been solved.

If, moreover, the investigation reveals that we cannot effectually deal with even that part of the problem of unemployment except in one way, then it would seem to follow that that way must at least form some part of the measures to be taken.

The Starting-point of the Investigation.

Although trade is carried on through the medium of money, the essential nature of trade is the production of goods and services of various kinds for exchange with one another.

The existence of unemployment thus implies that production of goods and services in some directions is not being adequately balanced by production in other directions so that *all the goods and services produced can be effectually exchanged for one another.*

So the problem of unemployment can be regarded as essentially a problem of unbalanced production, using the term "production" in the widest possible sense.

What, then, is involved from this point of view in a situation of "balanced production," in other words a situation of full employment?

There would be work for all if there were an effective demand for all kinds of goods, etc. in exchange for one another to such an extent as to call for the labour of all able-bodied workers.

This may sound very much like saying that all would be well if everything were well. But it really implies more than that; and the peculiar nature of this roundabout statement is justified by the fact, which is obvious and yet not too often appreciated, that the whole economic process of production and exchange, etc. is, in normal healthy circumstances, as it were a circular process; *e.g.* iron is mined; steel rails, locomotives and ships are made; and food, clothing, etc. are brought back from elsewhere by the locomotives and the ships to the sources of the iron. And this kind of process exists in infinite variation. Until there is a serious disturbance or a break-down in any of these processes, the whole of the industrial activity involved can hardly be said to have any real beginning or ending. It is essentially a "roundabout."

The processes of industry and commerce must therefore be regarded "in the whole round"; and it is desirable at the outset to investigate fully the implications of "balanced production" from this point of view.

CHAPTER II

BALANCED PRODUCTION

The first implication of balanced production—Wage relationships—The second implication of balanced production—The importance of gradualness—The distribution of increased purchasing power—The position summarised—The crux of the world-problem—Balanced wages and industrial stability—The problem of determining the minimum wage—Appendix to Chapter II.

THE ideal conception of balanced production implies a balance among all the countries of the world taken together. The maintenance of balanced production over a period of time, however, calls in any case for a solution of the special problem arising from improvements in industrial efficiency, and this part of the problem of unemployment in each country would also arise if the country were entirely isolated from the rest of the world.

It is appropriate, therefore, in the beginning, to consider the case of a modern community thus isolated.

The First Implication of Balanced Production.

There are many services which entitle individuals to a share in the enjoyment of the utilities produced in the community; and economic activity as a whole comprises, besides actual production, all the numerous ancillary services of a community's life :—the government executive, police, transport services, financial, professional and commercial activities of all kinds, news services, etc.

As those engaged in these ancillary services have claims to the material goods produced by the "production" groups, the conception of "balanced production" requires some qualifications in respect of those services which are not "production" in the narrowest sense of that word. But so long as we bear in mind this necessary qualification, we may, for the sake of clearer statement, enunciate the principle of balanced production in the following way.

A balanced production means that the quantity of production and the price of the product in the case of each article produced must be balanced in appropriate relationship to the earnings, etc. of all the members of the community, including those engaged in the production of all other articles (and services).

Of these three factors, quantity of production, price and earnings, it can be taken for granted that the first, namely, quantity of production, will be forthcoming if only the production offers prospect of profit; and so the statement can be reduced to simpler form; namely, that *the price of each and every article must be in appropriate relationship to the earnings, etc. of people engaged in the production of all other articles.* What is the appropriate relationship?

Now, the costs of production in each industrial unit comprise wages,[1] cost of material, of transport and of other services, etc., and of prior capital charges. And, taking the production process as a whole from the raw material to the final product, we can state that in the last resort the total cost of the whole process of production of each article comprises wages and all the prior capital charges and all the profits on capital at the intermediate stages of the production sequence.

That is,

$$\left.\begin{array}{l}\text{"Total of sale prices" all} \\ \text{along the sequence of} \\ \text{production}\end{array}\right\} = \left\{\begin{array}{l}\text{the whole total of wages,} \\ \text{plus prior capital charges,} \\ \text{plus profits.}\end{array}\right.$$

It is important to notice that on the right-hand side of this equation the factor of wages (meaning, as elsewhere throughout this book, all earnings from employment) greatly predominates over the prior capital charges and the profits. This may perhaps be taken for granted. It is illustrated in the diagram given below, which shows the make-up of the price of an article of ordinary trade. (The figures are taken from a statement of pre-estimated costs in an actual

[1] The term "wages" is used, for convenience, throughout the whole book to include all earnings of employment, whatever the nature of the employment may be: *e.g.* manual, clerical, administrative, etc.

case.) The article in this case was a typical product of the engineering trade, but there is nothing peculiar in the general make-up of its costs, and the figures illustrate the relative importance of the several items that go to make up the total costed price in that particular case. It will be realised that the items which do not fall under the immediate heading of labour comprise within themselves a great percentage of labour costs at every stage right back to the original sources of the goods (and services) covered.

Thus, while the problem of a balanced production is a problem of appropriate *relativity* in all the factors of production, viz. relativity in prices, relativity in the amounts of capital invested in the various directions, relativity in costs, and relativity in the rates of remuneration for all kinds of labour, it can be inferred that the last is at all events a factor of considerable importance, if not the most important of all. In other words, " balanced production " involves " balanced wages."

***Price of the article* (100 *)**

Labour, " direct " and " indirect "	Non-labour cost	Profit to producer †	Transport (*i.e.* from the producer to the purchaser)
(45)		(10)	(1)

Non-labour cost:

Material	Insurance (statutory and other)	Depreciation of buildings	Depreciation of plant	Transport	Power	Rates, water, light, etc.	Stationery, travelling, and miscellaneous expenses	Interest on capital value of plant	Interest on capital value of buildings	Interest on working capital	Rent of land
(34)	(1)	(·25)	(1·5)	(·5)	(1)	(1)	(1)	(1·5)	(1)	(1)	(·25)

* All the figures are percentages of the retail price of the article produced.

† The percentage figure of profit on this particular article, viz. 10% on the price of the product, is, of course, by no means typical of all production. In the case illustrated the statement of costs was a pre-estimate in order to arrive at an agreed price for this particular product of the heavy engineering industry. In other industries, particularly those of mass production, the percentage of profit to sale price is likely to be considerably less than 10% in the normal course. The actual percentage in any case will depend on several factors, including the extent of competition in the article, and, in particular, on the amount of " turnover " in relation to the capital employed. (This last point illustrates that as the condition of industry in general becomes more prosperous the *percentage* of profit in retail prices tends to become smaller, and accordingly the factor of wages becomes still more predominant in the make-up of the total price.)

In the above general statement leading to the deduction that the conception of balanced production involves balanced wages, no allowance has been made for the fact, which might in certain circumstances affect the truth of the deduction,

that different articles of production take differing periods of time to reach maturity (for example, a bridge may take years to construct), and circumstances may change during the period, *e.g.* there might be a change in the "value of money." Moreover, different articles of utility have differing lengths of life.

At this stage of the argument, however, conditions of industrial life will be assumed to be in other respects stable over a long period of time. The further examination of this stability over a period of time will come later. Here it suffices to state that, on the assumption that stable conditions otherwise are maintained, the necessity of an appropriate relativity in rates of wages is apparently as fundamental as anything in the whole problem of securing a balanced production.

Some people may hold the view that it is of less importance to attempt to regulate the relativity of wages one to another than to regulate the supply and also the earnings of capital. But, apart from the fact that wages are shown to be not only a primary factor in costs but also, in the last resort, a greatly predominant factor in costs, there are other reasons for considering that an appropriate wage-relativity should be a primary aim, in practice as well as in theory.

In the first place, the volume of trade based on the amount of capital invested in industry at any moment depends on the relationship of prices to purchasing power, *i.e.* predominantly the relationship of prices to wages, and not at all, or to a very minor extent, on the rewards of invested capital. The rewards of invested capital play a relatively small part in the industrial activity *at any given moment.* The part played by rewards of invested capital is only in the direction of either enticing more capital for extension of enterprise or not enticing it, according to whether reasonable profit is currently shown on existing invested capital or not. In this sense wages are clearly more fundamental in their effect on industry *at any given moment* than the rewards of capital. The latter will have to be taken into account, however, in the examination of what is required for stability over a period of time.

Secondly, quite apart from the questions of right or wrong, and general advantage or otherwise, in the utilisation of private wealth for the "reward" of private profit, if only the national industrial activity based on an existing invested capital is a "balanced" activity yielding a normal profit in all directions, capital for any further enterprise or development that is found to be necessary may well be left to respond to the ordinary supply and demand ratio. There is no positive harm to industrial life in the operation of that ratio, so far as *capital* is concerned.

In any case, whatever other elements may enter into the problem of securing a balanced production, the problem of balanced wages is one important element. If wages are not "balanced" in the various production groups, there is relatively too little purchasing power in certain quarters to balance the "production" in other quarters, and the position is illustrated by what is called "over-production" or "under-consumption," and unemployment.

And so, assuming stable conditions in other respects over a period of time, the conception of a balanced production becomes interpretable, broadly speaking, as a "balance of wages" between the various "production" groups whose goods effectually exchange for one another; and we may define a situation of unemployment in this way: that labour, either generally or in particular kinds, is unemployed because wages throughout industry are not in balance.

The claims of capital are not overlooked in thus speaking of a balance of wages; for in conditions of free competition, profits tend towards a normal figure of percentage to the capital employed, according to the risks incurred; and balanced production involves "balanced profits" also. In fact, because profits on the whole do tend to become balanced it is right to deduce from "balanced production" the necessity also of balanced wages.

And the argument up to this point indicates that, *on the assumption that conditions remain in other respects stable over a period of time*, **an ill-balanced distribution of earning-power among those who are in employment, although itself**

very possibly the result of economic disorder in the past, can also be regarded from a practical point of view as a "reason" for disorder in the present; for we might remedy the disorder itself if only we could in practice regulate wages so as to maintain the balance required.

The balance of wages spoken of appears to be a kind of "balance of purchasing power" between industrial groups taken as a whole. As regards individual wages the position requires some further definition. A balance of wages does not mean, for instance, that the wages of all labour should be equal.

Wage Relationships.

An investigation as to the appropriate relationship between rates of wages for the different kinds of employment must, of course, pay regard to this overriding principle of a "balance of wages" between the various industrial groups; but it must also pay regard to the needs and claims of the individual as an individual.

From this point of view, certain considerations stand out at once. Clearly, pending the arrival of a state of society which will proceed smoothly and efficiently without personal ambition, and under which a system of equal wages to all workers regardless of their varying degrees of qualification would not be detrimental to the community as a whole, there must continue to exist to some extent an element of competition among individuals in respect of competency for the posts which make the more exacting demands on individual powers. In any one organisation, if it is to run efficiently, there must clearly be grades of more or less responsibility in the hierarchy of control, *e.g.* labourer, foreman, manager, administrator, etc.; and, in present circumstances, the position is not likely to be satisfactory unless the higher posts carry higher rates of pay, at any rate until human nature grows greatly different from what we know it to be at present. Moreover, there would seem to be no disadvantage from the community's point of view in an arrangement whereby those posts which make the most exacting demands upon the individual do carry the highest rewards.

In other words, in the "vertical" channel represented by degrees of ability, character, etc. in any one line of industrial (or professional, etc.) activity there may well continue to be differences in rewards determined broadly by the supply and demand ratio in the "quality" of labour required and available. It may be imagined that the degree of differentiation in this respect might be possibly (and quite properly) a narrowing one as time goes on, but in present circumstances the fact of a difference in such rewards carries no disadvantage to the community as a whole.

As regards the remuneration of labour in general, civilised communities have departed from the rough-and-ready application of the supply and demand ratio in the true and unqualified sense. In the past the crude factors of supply and demand where labour was concerned allowed of an artificial distortion on one side only in the direction of no demand at all. That unequal factor operates no longer. "Collective bargaining" has disposed of that trouble. But, in taking the great stride in civilisation up to that point, the remaining task of deciding what principle or principles should operate in place of the old one of crude and unmitigated competition of labour with labour has been neglected. It cannot be said that wage rates in different trades are at present related to one another even remotely on the basis of any scientific principle whatsoever.

The preceding argument indicates one of the principles on which the determination of an appropriate relationship between wage rates in different trades should be based. This principle asserts that, apart from the necessity of an appropriate relativity between the wages of the various grades of labour in the vertical channel of each industrial group, which may perhaps be quite properly determinable in practice by reference to the supply and demand ratio in the "quality" of labour concerned, there must also be an appropriate relativity throughout the whole field of economic life between the wages of all those kinds of labour in the various industrial groups as to which there can be no common basis for comparing the "quality" of one kind with another. So far as the argument has progressed up to this

point, the further definition of an appropriate relativity between the rates of wages for the different kinds of employment must be sought in such balance of earning power among all the members of the community as gives rise to a balanced production (*i.e.* a complete exchange of all the articles, etc. that are produced one for another) while at the same time paying sufficient regard to the needs and claims of individuals. Assuming stability in other respects, this means ideally a balance of wages, "quality" for "quality."

It was stated above that different kinds of labour in the whole field of economic life may have no common basis for real comparison of the "quality" of one kind with another. There are, nevertheless, certain types of employment which are so general as to be common to most, if not all, industrial groups. Such types are, for example, clerical, administrative and managerial employment, etc. It might therefore be true to some extent that, because of the generality of those types of employment, their wages do tend, with some few exceptions, to approach a fairly common level, for each comparable "quality," throughout the whole of the country's industry. To the extent that that is so it might be possible to achieve something approaching an appropriate general balance over all if each industrial group related all its wages for the various grades it employs to the wages paid to clerks, administrators and managers, etc. This is not done, however, in practice; and rates of wages for the bulk of those actually employed in production are arrived at in entirely other ways.

As regards those kinds of labour among the different industrial groups which are not in themselves comparable by "quality" in the sense used above, no direct comparison of wages can be made. But since, as stated above, some comparison of "quality" can and does arise between grades of labour in the "vertical channel" of each industry, the problem of appropriate wage relationships throughout the whole community can be reduced for practical purposes to an appropriate relationship between the various industrial groups as regards one grade in each group to which other

grades in the group can be related. The wages of this grade may be regarded as the "foundation-wages" for the group; *i.e.* "foundation" in the sense of being the foundation or "datum" line to which other wages in the hierarchy of the same group are, or could be, related. The lowest grade of adult labour in each group is a suitable grade to be taken for this purpose.

As these lowest grades of labour in the various industrial groups are assumed not to be comparable one with another as regards intrinsic "quality," how is their appropriate remuneration to be determined?

There is this consideration. It is in the community's interest that the different kinds of work are performed by as many different kinds of workers. From this point of view it appears that, subject to any further considerations which may emerge in the discussion, the community-need of balanced production, which involves balanced wages, requires that the wages for this lowest grade of labour in each group should in all cases be the same. Such a conclusion does not appear to run counter in any way to the needs and claims of individuals as such. There may have to be slight variations in foundation-wages to correspond with the degree of "more or less" in the attractiveness of different kinds of employment. Thus, it may be in the interests of the community as a whole that variations should occur in the rates of wages or other conditions attaching to certain employments in order to induce individuals, in the interests of the community as a whole, to remain in, or to divert to, employment of certain definite kinds. It may also be in the interests of the community for various reasons to conserve to some extent conditions of life which have the sanction of long tradition, habit or convention—until public opinion, for example, may be ready for a change. These considerations, although important, involve only a minor qualification to the general conclusion that the lowest grade of labour throughout the whole of the country's industry should be paid the same minimum rate of wages. The necessity for the minor variations in foundation-wages will be taken for granted in all that follows; so that,

for the sake of simple statement in the further argument, it can be said that there is need to lay down a common minimum wage for the whole of the country.

But what is the position in practice? The " foundation-wages " (or minimum wages) in the different groups are so far from being equal [1] that in spite of the " immobility of labour " a drift of humanity has actually taken place in this country away from regions where the community as a whole would desire that it should remain to regions where in the general interest it is not wanted.

It can now be seen that the balance of wages which is shown to be the first implication of balanced production has this practical significance :—It not only secures that the conditions prevailing " at each moment," as it were, shall themselves conduce to balanced production, provided that stability of economic conditions is not disturbed as time goes on; but it also ensures as far as possible that stability will not be disturbed as time goes on by reason of the people being attracted away from such allocation to employment as is most suitable for the community's best welfare.

It is true that some degree of difference might be tolerated in the minimum wages of various industrial groups (regard being paid also to conditions of service other than money-remuneration) without giving rise to an undesired movement of labour from one kind of employment to another ;[2] and it may be thought for that reason that this first implication of balanced production is of only minor importance. But the maintenance of balanced production within the community also requires the fulfilment of another condition besides a balance of wages among themselves. This further implication of balanced production has yet to be examined. It will be seen that the tendency to harm which results from even small differences in wage-rates between grades of labour of

[1] Other conditions of service besides money-remuneration play a part—see the preceding paragraph.

[2] It will be realised that an undesired " movement of labour " to different employment can arise without an actual movement of individuals already in employment. It can arise in the form of a drift of youth newly recruited to the ranks of labour.

equal "quality" among the various industrial groups may too easily become accentuated when this second condition implied in balanced production is not fulfilled.

The Second Implication of Balanced Production.

It has so far been shown that, on the assumption that stability of economic conditions is not disturbed in other respects as time goes on, the maintenance of balanced production requires that there shall be a balance of wages among themselves (or a "sufficient" approach thereto) at any moment.

But the balanced production which is necessary for the maintenance of maximum employment is not a static condition. Unemployment can be avoided only if conditions are such that there is a balanced production all the while.

It will be appreciated that over a period of time balanced production, besides requiring all the while, as shown above, a balance of wages among themselves, requires also the maintenance of a balance between the community's whole purchasing power and the community's ever-increasing power of production. Balanced production requires, in fact, a progressive increase in the total purchasing power of the community as the community's productive power increases.

This aspect is further examined in an appendix to this chapter by considering a simple example in an imagined self-sufficient community. It is assumed in that example that production is the result of multiple units of labour in co-operation; and it is shown that, if the power of production of each unit of labour is constantly increasing by reason of improvements in industrial efficiency, a condition of balanced production cannot be maintained unless the purchasing power of labour itself is progressively increased. Even in the most favourable circumstances possible, namely, in an isolated self-sufficient community when no extraneous factors arise to upset in unforeseen manner the normal processes of industry, not only will unemployment constantly and inevitably tend to arise as a result of the improvements in industrial efficiency that are constantly taking place, but

these tendencies can only be effectively counteracted by increasing the purchasing power of labour, or the "real value" of wages.[1] To rely upon the invention of new articles and the creation of new demands as a means of absorbing the unemployed is to rely upon an improbable hazard.

In other words, quite apart from the effect on trade and industry of disturbances of whatever kind that can always occur from outside causes, **the ordinary processes of trade themselves, i.e. the actual processes of production and distribution, because they are themselves under constant improvement, serve to render any equilibrium of trade always an "unstable" equilibrium**; so that the application of a corrective is constantly required. And the corrective required for the maintenance of balanced production over a period, apart from the necessity of maintaining all the while a balance of wages among themselves, is an appropriate upward movement in the purchasing power of the wage-earners.

Increases of purchasing power mean, of course, increases of money-income (or accumulated money-wealth) *in relation to prices*. To speak of increases of purchasing power for the wage-earners (among others) therefore still leaves the question open as to whether the increased purchasing power required shall be achieved by general increases of wages or by general decreases of prices. It is not necessary to cumber the argument here by including an analysis of the merits of these two alternatives. It suffices to state that such analysis reveals that every advantage in practice lies with the alternative of increasing money-wages rather than reducing prices (even assuming that the adequate reduction of prices would be sufficiently practicable).

As the industrial order under which we live is dependent upon profits, the statement that wages must go on increasing as the community's productive power increases requires further expansion.

The Importance of Gradualness.

In the simple case of an imagined self-sufficient community, if the whole cost of production is assumed to be in

[1] See Appendix to this chapter, page 31.

wages, it can be stated as a definite proposition, admitting of arithmetical proof in the simplest type of example,[1] that when there is a quantitative increase in the productive capacity of labour, the increase in the purchasing power of the wage-earners which is required to maintain balanced production can be accompanied by an increase in profit (by virtue of the increased sales) without a rise of prices.

On the simple assumption mentioned such a conclusion is almost obvious; and it will be appreciated that even in the conditions of real life the conclusion remains true in regard to *tendency*. But the degree to which this tendency will emerge as a practical result in real life, so far as profits are concerned, is subject to certain qualifications which have an important bearing on the general problem.

For one thing, it is possible that an increase in purchasing power may not be expended upon an increased production of the goods already in the market; increased purchasing power may be expressed by a demand for certain other goods (say, of better quality) in *substitution*. This, however, is a consideration affecting only the interests of individual capitalist enterprises in competition with one another, and does not call for any special consideration in a discussion of the more general question.

Again, an increase in profit does not invariably follow every increase in production, even if the whole increase in the production be sold. It may be, for instance, that sale at a given price can only be profitable on the basis of a certain minimum volume of production. This qualification is important; but it is covered as a particular case in what follows.

From the point of view of maintaining balanced production, the important qualification in regard to the above proposition arises from the fact that in practice "capital" plays a part as well as "labour" in the process of production, and the community is dependent on expansion of profits, and on the prospect of such expansion, to induce the required expansion of production. The bearing of this on the broad practical problem can be seen as follows.

[1] See Appendix to this chapter, page 31.

In the first place, the claims of capital are not all in the same form. There are fixed rates of interest on loans and on debenture stock and mortgages, etc., fixed rents for the occupation of land and premises (that is a kind of fixed interest on a loan), preferential claims on profits (in the form of dividends on preference shares at fixed rates in joint stock companies), and so on; and only after all the prior capital charges have been met does the ultimate net profit to the entrepeneur[1] emerge. It is, nevertheless, on the entrepreneur's profit that business enterprise depends.

Secondly, an increase in wages has a different influence upon costs of production according to the relative "weight" of the factors of "labour" and "capital" employed in the production.

Thirdly, any change in the market conditions applying to the ultimate product is only felt at the earlier stages of the production sequence after an interval of time; and the more stages there are in the whole sequence of production from the raw materials to the ultimate product, the longer is the time interval in which the ultimate market conditions make themselves felt at the earlier stages of the sequence.

For the last two reasons, separately and together, the increase of wages all round without a rise in prices, which is shown theoretically to be required for the maintenance of the stability implied in balanced production, might not in some circumstances have the anticipated favourable effect on the figure of profit at every stage of the sequence of production. Moreover, the costs of production of the ultimate article include an element which represents the profits of capital at the earlier stages in the sequence of production; and as the first effect of an increasing demand upon a supply which cannot be expanded immediately may be to put the "producers" at the earlier stages of the sequence in a relatively strong position, it may be that the increased demand for the ultimate product will, for this reason also, not have the anticipated favourable effect on the figure of profit at the ultimate stage or at the later stages

[1] Using that term to include also the individuals who are ordinary or deferred shareholders in joint stock companies.

in general. (The result in this respect would depend on how great the improvement in the community's industrial efficiency might be, and at what stage of the production sequence the improvement occurs, and how far the profits of capital at the intermediate stages of the production sequence can be assumed to be at competitive rates.) It will be realised that at whatever stage the emergence of the entrepreneur's profit might not fulfil the theoretical expectation for any of these reasons, the check to enterprise which will result at that stage will make itself felt in due course as an accumulating disturbance from one stage to all the others in the sequence.

It is to be noted, however, that none of these considerations impair the truth of the general conclusion reached in so far as it relates to tendencies. And the practical inference to be drawn from the above qualifications to the truth of the conclusion is therefore this, *and only this*. That, because of the influence of these factors, **the wage-increases which are shown to be necessary must be made gradually. But it remains true that in view of the unceasing progress of "industrial efficiency" in a modern community, the upward movement in wages must be made persistently as the situation requires.**

Two questions now arise in regard to the increases in wages shown to be required in order to maintain balanced production when the "productive capacity" of the unit of labour increases.

One question is as to the measure of the total increase in purchasing power required, and the other is as to the appropriate distribution of this increased purchasing power.

The first question is answered to some extent by the above conclusion that the wage-increases must be gradual. The further practical aspects of this part of the problem will emerge in the subsequent discussion.

It is desirable, however, to discuss at this stage the second question as to how the increase in the whole purchasing power of the wage-earners should be distributed.

The Distribution of Increased Purchasing Power.

If wages were all equal it would follow that the increased purchasing power required to match the increased productive capacity in the community should also be divided equally. But individuals in fact earn very different amounts and must continue to do so along the " vertical channel " of industry.

It might, then, be inferred that the fair way of dividing the increased purchasing power required in the community should, in ideal circumstances, be in proportion to each individual's earnings.

But such a general inference would again hardly be warranted.

When the productive efficiency of labour is increased by invention or improved organisation, etc. the appropriate distribution of the increased purchasing power required in the community to maintain a balanced production will depend not only on the quantitative degree of labour-saving secured, but also on the manner in which the increased purchasing power as distributed would express itself in effective demand for each of all the articles produced in the whole community. This would depend on individual tastes and on the amount of the increase in individual wages.

From the broad aspect of the community's interest as a whole, all that can be said is that the increase must be so distributed that balanced production is maintained. In theory, balanced production might be equally maintained by various distributions of the total increased purchasing power required in the community, provided only that in the result labour of equal " quality " remains, generally speaking, equally remunerated throughout the community.

But there are two important considerations which give some further guidance. One is that the increases in productive capacity under consideration are quantitative; *i.e.* they arise from improvements in connection with production on large scale. The other is that existing wages in the vertical channel of industry may be assumed to range from, say, £1 10*s*. a week to about £200 a week.

In a community in which the range of wages is as extensive as this, it might be urged on sentimental or on ethical grounds that the new balance should be secured by such a distribution of the increased purchasing power as would give a maximum share to the lowest-paid workers. But, apart from sentimental or ethical considerations, the already great and ever-growing possibilities of mass-production suggest that, from the business point of view alone, a distribution of the increased purchasing power in this manner would be the most effective way, if not the only effective way, of meeting the situation adequately from the business point of view. The purpose is to match the community's purchasing power with industry's increasing capacity of mass-production; and this purpose is most likely to be fulfilled if the maximum share of the increased purchasing power is given to those who are already least able to satisfy their requirements in articles that are mass-produced.

As to the conclusion that wages must go on increasing progressively (but gradually) as the community's power of production increases, although the necessity for this may not be readily appreciated, the following consideration will show why such a conclusion is no cause for surprise.

Wages are an advance payment to the worker in anticipation of a marketable value in the product of his labour.[1] This advance payment, like any other money, gives to the wage-earner a claim to some of the community's "production." But, as the essential nature of trade is an exchange of goods and services for other goods and services, this claim to some of the community's "production" is not fully established, as it were, from the community's point of view until the product of the labour has been completed and marketed.

In other words, **wages, although paid out of the pre-existing monetary resources of an individual employer or an industrial company, are in effect nothing but a "credit" to the wage-earner from the community as a whole;** and

[1] Although this is expressed in a way that covers only "productive" labour, the same considerations arise whatever the nature of the employment may be.

this "credit" is not effectually "liquidated" within the community until the product to which the labour has been put is completed and sold. From the point of view of the community as a whole the "credit" represented by these grants of purchasing power in advance of the sale of the product is exactly the same in nature as the credit given to an individual by means of a deposit at the bank against which he is allowed to draw cheques. From the point of view of the community the complete liquidation of the "credit" in both cases depends ultimately on the normal process of industry and commerce in healthy continuance.

A credit at the bank is a claim upon some of the community's "production" which has been given to the individual at the discretion (more or less) of the banker. That is part of the banker's function. The "credit" given in the form of wages is given through the further agency of the employer of labour. It is only the intervention of this second agent which distinguishes "credit" given as wages from the credit at the bank in the form of a deposit out of which the employer can draw money at will.

The Position Summarised.

To sum up the position briefly at this stage of the discussion :—It is demonstrable that full employment cannot be maintained, even in a community that is not exposed to the difficult impacts of international trade, unless wages throughout the community are maintained as far as possible in balance with one another, and the "real value" of wages, or their purchasing power, is progressively increased as the community's quantitative capacity of production increases.

It is demonstrable that, of the two alternative means of progressively increasing the real value of wages throughout the community, a general increase in money-wages is preferable to the alternative of a general reduction in prices (even should that be sufficiently practicable.)[1]

And there is this further consideration regarding the progressive increase in the general level of wages which is

[1] Reductions of price in particular cases will still be possible no less than they are at present.

shown to be required as the community's capacity of production increases. Industry's great capacity of inexpensive mass-production in numerous classes of goods suggests that, even in the interests of business alone, the most suitable distribution of the increased purchasing power required in the community to match the constantly increasing capacity of production will be such as gives a maximum share of the increase to the lowest-paid workers.

In general the position is this: that in the circumstances of to-day, even if we assume industry to be in a condition of equilibrium at the outset, the equilibrium is unstable owing to the conditions of mass-production applied to a multitude of articles of general utility, and on account of the rapidity with which new inventions succeed one another in practical use. And the economic situation accordingly calls for the application in practice of a corrective from time to time. In theory the corrective is required, as it were, continuously.

The corrective required from time to time consists in such adjustment of wages as will continually restore the economic balance which is continually tending to be upset. And the wage adjustments necessary for this purpose must satisfy two conditions. On the one hand they must maintain as far as possible a balance of wages among themselves throughout the various groups, and on the other hand they must secure an appropriate progression as time goes on in the total purchasing power of the community.

The maintenance of a balance of wages among themselves tends towards balanced production by virtue of the balanced conditions of industry then prevailing "at each moment," as it were. And the progressive increase in total purchasing power as time goes on, appropriately distributed in the manner indicated (*i.e.* by giving a maximum share of the increase to the lowest-paid workers), is necessary in order that the constantly increasing productive capacity of industry may be matched as far as possible by an increase in effective demand so as to achieve a new balance as the increased capacity of production is brought into play.

In practice, the maintenance of a balance of wages among themselves can be sufficiently secured by the adoption of a

common minimum wage throughout the whole of the country's industry (subject to the slight variations which may be necessary between certain groups for the reasons previously indicated); and the progressive wage-movement should be gradual so that industry in general is not unduly disturbed.

Most of this elaborate analysis confirms what might almost have been regarded as apparent at the outset.

Thus, since wages, *i.e.* including all earnings from employment, are the main constituent in costs of production, a situation of completely balanced production over all, *i.e.* a situation without any unemployment, must be achieved by an ideally complete "balance of wages" throughout all industrial groups. And again, as the true economic welfare of a community lies not in monetary wealth but in a high degree of ability to produce goods together with an abundant facility to exchange them, it follows that the constantly increasing ability which a modern community now enjoys to produce goods in the mass requires to be balanced by an equally increasing mass demand in the form of a mass purchasing power to buy the product. And mass purchasing power is, after all, the same as the wages of "the masses."

If the commercial application of an invention is confined to an article of luxury or of individual taste or fashion there is not the same need for a widespread increase of purchasing power to balance the increased "productive efficiency" of the community. The fact is, however, that a great part of modern invention tends towards facilitating the production of articles in general use; and, even when applied to articles not generally used in the first place, tends towards making what was previously a luxury for the few into an article of such general desire that it becomes very soon all but a necessity for the majority.

The Crux of the World-Problem.

The discussion has so far been confined to the case of an imaginary community (of modern civilisation) entirely isolated from the rest of the world. No account has been

taken as yet of the complications produced by international trade.

It has been shown that, even in a community which is not subject to the awkward impacts of international trade and international finance, industry must always be unstable unless the correctives already indicated are applied.

It is therefore to be expected that, whatever else may be required to resolve the world's economic disorder, the maintenance of balanced wages (in the twofold sense) internally in each country must be an essential element in the solution of the problem.

The practical significance of this is simply that the home trade in each country can never realise its potentiality unless the internal conditions themselves are such as to satisfy the essential requirements of balanced production, *i.e.* unless steps are taken to maintain balanced wages (in the twofold sense) at home.

Such a conclusion is at once an illustration and a practical application of the truth that all the manifold branches of industrial life are interdependent. A great deal is heard about the economic interdependence of nations. The interdependence of all industrial activity within each national boundary is equally true; it might be said to be even more important (if that could be possible). This truth has been insufficiently appreciated and needs to be emphasised. It is, indeed, the crux of the whole matter in the world-problem, for it is the neglect to adopt the measures required for the maintenance of balanced production within each country separately which leads to the acute conflicts of economic nationalism.

What is the position in fact? Our present habit is to leave industries to fight their own battles of world-competition in isolation from the rest of the industrial community in each country. With what result? Competition compels reduction in costs of production; and reduction in costs of production can be achieved either by improvements of machinery and organisation or by reductions of wages. But improvements of machinery and organisation are usually available in due course equally to all parties;

and although wages may be the last item of costs to be reduced, the tendency is for wage-reductions to become necessary in the last resort if adequate competitive power is to be maintained. And reductions of wages are not only unfortunate for the individuals engaged in the industries concerned; they also tend to be detrimental to the country as a whole because of the consequent diminution in purchasing power of those employed in those industries.

To maintain wages without any reduction may stimulate improvements in machinery and organisation all the more. But, even apart from the fact that such improvements are more likely to postpone wage-reductions than to prevent them altogether, the improvements themselves tend to bring about directly an increase of unemployment within the country itself, and so to create or intensify the purely domestic disorder which has been considered in the preceding discussion. And so, unless steps are taken within the country itself to counteract this purely domestic element of disorder, the whole result develops into a tendency of greater and greater pressure towards wage-reduction in the industries which are exposed to international competition and consequently towards a depression in trade as a whole.

It is quite clear that international trade cannot itself offer any means of counteracting that part of each country's domestic unemployment problem which arises as a result of improvements in industrial machinery or organisation. On the contrary, the existence of unemployment in any country amounts to an economic threat of an intensification of international competition. And the more this competition acts as a stimulus to improvements in industrial efficiency the more severe becomes the domestic problem of unemployment.

Thus, the whole discussion of this chapter now leads to an important conclusion. It is this: that **the maintenance of balanced wages (in the twofold sense), which is necessary in each country for counteracting the purely domestic tendencies to economic disorder, is not only an essential part of the solution of the whole world-problem, but it is the element primarily required**; and that any further adjustment of

economic conditions which the country may find necessary in particular directions must be devised with reference to the primary requisite of balanced wages (in the twofold sense) within the country itself.

In place of the chaotic disequilibrium that at present exists within each country it is necessary *first of all* to aim at the creation and maintenance of internal balance. This is the "order out of chaos" which each country must achieve internally before any real and permanent order can be introduced in the international field. But there is no reason to doubt the possibility of achieving both at the same time.

Balanced Wages and Industrial Stability.

It has been shown that the two requirements of wage-regulation are a balance of wages among themselves and an appropriately distributed increase of wages as the productive capacity of the unit of labour increases. The balance of wages among themselves conduces to balanced production provided that stability is not disturbed as time goes on; and it also ensures as far as possible that there shall be no inducement to the people to drift away from fields of employment that suit the community's needs to fields that do not. And the appropriately distributed increase in wages as time goes on secures that, given a suitable allocation of the people to employment, the constantly recurring tendency towards a diminution in the volume of employment to be offered shall be counteracted. The first secures a kind of "*lateral balance*" or "*lateral stability*," and the second a kind of "*forward balance*" or "*forward stability*," as it were, in the country's ever-progressing industrial mechanism.

Both kinds of balance are necessary; in a way they are complementary to one another. Complete stability of industry cannot be achieved unless both these balances are maintained to a sufficient extent. If there is a departure from "lateral balance," the "balance of purchasing power" as between the various industrial groups is upset and unemployment results; and if the departure from "lateral

balance " proceeds too far the suitable allocation of the people to employment is also disturbed. And, on the other hand, if " forward balance " is not sufficiently maintained, effective demand becomes inadequate and the demand for labour diminishes again.

It is noteworthy, by the way, that the first conclusion (that there must be a balance of wages among themselves) is, so far as it goes, the same conclusion as the old economic theory indicated to be the " natural " issue of the ordinary processes of industry " in the long run " when all the factors were allowed free play. (The " orthodox " conclusion was not, however, stated in that form.)

The conclusion that a deliberate adjustment towards a balance of wages among themselves is necessary for the maintenance of balanced production thus confirms, so far as it goes, and is in turn confirmed by the old theory; a fact which may make it the more readily acceptable in some quarters.

It was seen, however, that in the modern world, if all the factors were allowed free play, the balance of wages to be ultimately reached would tend to be at a lower and lower level. And it has been shown that the requirements for stable industry (which implies maintenance of balanced production) include something besides a balance of wages among themselves; they include a progressive increase in the level at which the wages among themselves are balanced.

The Problem of Determining the Minimum Wage.

With regard to the first requirement of balanced wages, namely, a balance of wages among themselves, it was stated that this would be sufficiently achieved if the foundation-wages in the various industrial groups were themselves in balance; and that for the purpose of the further argument we might speak of a common minimum wage throughout the whole of the country's industry (though some minor variations might have to be introduced in practice).

This does not, of course, settle the whole matter. There is still the question: How is the appropriate minimum wage to be determined?

In a self-sufficient community the actual minimum wage upon which the whole community's balance of wages at any given moment is to be founded might be of minor importance, provided that the requirements of stability in other respects were fulfilled. But in the real world this is not so. For if the people of a country are to be fully employed the country must retain an "adequate" competitive power in world markets, including the home country; and it follows that the general level of wages must be in appropriate adjustment with economic conditions external to the country.

This remaining problem of appropriate adjustment to external conditions is not necessarily so difficult as it may appear. An adjustment of this kind is necessary in any circumstances; and it will be appreciated that the problem of determining what is appropriate must be more amenable to a solution when internal conditions are first balanced (as they must be in any case for a complete solution of unemployment) than when internal conditions are in chaotic disequilibrium.

Indeed, it can be readily understood that the problem of determining the necessary adjustments must almost defy solution so long as the internal chaos existing at present in each country is not itself resolved into order.

The fuller consideration of this external adjustment is deferred to a later chapter. Meanwhile, certain other questions which also arise must be examined first of all.

Seeing that wages have to go on increasing as the community's productive capacity increases, more units of money will be required for use in the community. Accordingly, one of the questions to be examined is: How will this increase in the total of the community's money affect industry in general? And the other question is: How will it affect credit?

These questions are dealt with in the two succeeding chapters. Their discussion throws further light on the practicability and the necessity of wage-regulation.

APPENDIX TO CHAPTER II

An argument, on certain simple assumptions, to show the effect of improvements in industrial efficiency.

The assumptions to be made will be simple, and therefore unreal, but it will be realised that *in its essentials* the argument is entirely applicable to a civilised community in real life.

Picture an isolated community whose economic requirements are limited to two articles only, A and B; and assume that the requirements of the community in the two articles A and B are met by the labour of two groups containing equal numbers.

Now assume that an improvement takes place in the productive capacity of labour in both groups suddenly and simultaneously and that the degree of improved productive capacity is also the same in both groups.

Clearly, because the improvement is equal in both groups, the articles A and B should exchange for one another in the same quantities as before, and the community, both as a whole and individually, might expect to be richer than before, either in material goods or in leisure.

Now examine what happens when money is the medium of exchange. And in so doing assume something which serves to render the example of the simple community a little more like our community of civilised people; that is, assume that by the intervention of the money medium of exchange, the constant practice of exchanging article A for money and money again for article B so divorces the mind from an appreciation of the value of article A in direct relation to B that the members of the community cease to think of the value of A and B except in terms of money, which is what we do ourselves.

In picturing the results which will follow from the well-understood tendencies of our business system we can again simplify the main issue if we assume that the results follow, as it were, immediately. That is to say, let us imagine that the economic results which will follow in a period of time are, as it were, squeezed back into the present moment. In other words, let us avoid the complications which might arise from various extraneous factors of instability (*e.g.* political changes, variations in the "value of money" itself, and so on) by simply ignoring them, so that the argument may be concerned solely with the ordinary and well-known economic forces inherent in the simple processes of production and exchange by themselves.

Assume in the first place, for the sake of simplicity, that in each group the improvement amounts to an ability to produce with the same labour as before a 50% increase of goods, and that

such a proportionate increase in the total of articles A and B is not more than the whole community desires to consume (if only individuals have enough money for that quantity to be purchased).

As already stated, the situation is clearly one in which the community is much richer than before in the sense of being able to produce more goods altogether and more goods per head of the community. What are the possible results?

If wages remain the same and prices are not reduced, the workers in both groups will be unable to buy any more of the articles A and B than they did before. There will be, in fact, "over-production" of article A and unemployment in the A group will ensue; and there will also be "over-production" of article B and unemployment in the B group will also ensue; unless, of course, some other deliberate step is taken (or something else happens, such as the invention of a new article and the creation of a new demand) to restore a healthy position.

If wages remain the same and prices *are* reduced, all the wage-earners will be enabled to buy more of articles A and B than before. If the price is reduced "sufficiently," the increased total production of articles A and B can be absorbed, and there will be no unemployment. It is not necessary to determine precisely what reduction in price would be "sufficient" for this purpose, but it can be shown that, on the simple and purely theoretical assumption that all the cost is in the labour, there is a certain price, lower than the previous price, which would enable the wage-earners to buy up the whole of the increased product without any diminution in the total of money profits.

It is possible to give an arithmetical proof of this statement in the simplest type of case as follows—

Let it be assumed that, before the increase in the productive capacity of the labour,

N was the number of articles produced by a group in a given period, assumed for simplicity to be the same number in each group,

C was the cost of each article, *i.e.* the whole cost of the labour in each group divided by the number of articles,

and P was the price at which each article was sold.

Then—

the total cost of all the articles was $N \times C$, and the total receipts, if all the articles were sold, was $N \times P$,

so that

the total profit for the period was $(N \times P - N \times C)$.

After the assumed 50% increase in the productive capacity of the labour—

the total number of articles produced is $\frac{3}{2} . N$.

But the total cost (assuming that the whole cost is in the labour) is still $N \times C$.

If now the price of the article is reduced to P'—

the total receipts when all the articles are sold will be

$$\frac{3}{2}.N \times P'$$

and the total profit over the same period as before will be

$$\frac{3}{2}.N \times P' - N \times C.$$

Thus, the total profit will be the same as before if

$$\frac{3}{2}.N \times P' = N \times P.$$

In other words, the profit would remain the same, and at the same time the old wages would suffice to buy up the whole of the 50% increased production, if the new price of each article were only two-thirds of the old price.

The above assumed an increase in the productive capacity of the labour of 50%; but the figure of 50% was only taken by way of example in order to simplify the arithmetic. The result is the same in kind, though not in degree, whatever be the increase in the productive capacity of labour; namely, that, on the assumption that the whole cost is in the labour, there is a certain price lower than the previous price which would enable the wage-earners to buy up the whole of the increased product without any diminution in the total of money profits. And alternatively there might be an *increase of wages* all round (if this were practicable) *without a rise in prices*, which would enable the whole of the increased production to be purchased and at the same time allow of an *increase in the total figure of profit* as well.[1]

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[1] The arithmetic to illustrate this alternative and more general conclusion is as follows:

The assumptions are:—A simple community consisting of two productive groups of equal numbers, with balanced wages, and a sudden increase in the productive capacity of labour of equal amount in the two groups. The whole cost of production is assumed to be in the labour.

Let the increase in the productive capacity of the labour, assumed to be equal in both groups, be L%; and let the rate of wages be increased by W%.

If N was the number of articles of each group produced in a certain period of time before the increase in the productive capacity of labour occurred,

and if C was the cost of each article,

and if P was the price at which each article was sold, giving a total profit previously of (N × P − N × C),

then,

the total number of articles produced in the same period of time

The precise truth of this proposition is subject to certain qualifications in real life. These qualifications and their effect upon the actual conditions in practice are discussed in Chapter II; but the arithmetical argument is sufficiently conclusive in regard to *tendencies*.

And although equal numbers of workers were assumed in each group for the sake of simplifying the argument, it can be seen in general that the conclusion remains equally true if the numbers in the groups are unequal and if the changes in the productivity of labour in the groups are not identical.

This analysis of the simplest type of case shows that, by the ordinary operations of industry under present conditions (even ignoring any disturbing factors such as may always arise in a period of time from extraneous causes), so long as the general level of wages is maintained at a definite figure and not increased, unemployment (with its well-known cumulative tendencies) must always tend to arise automatically and inevitably whenever an increase in the productivity of labour occurs; and the disorder will not be corrected unless prices in general are reduced by a "sufficient" amount in each case.

On the other hand, in our simple example, if the rate of wages of all members of the community were *increased* by an adequate

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after the increase in the productive capacity of labour occurred becomes $N.l$, where $l = 1 + \frac{L}{100}$; and the cost of each article becomes $C.w$ where $w = 1 + \frac{W}{100}$.

The total cost then becomes $N.l \times C.w$.

If P' is the new price (assumed for the moment to be higher than the old price),

the total receipts, assuming all the articles are sold, become $N.l \times P'$ and the total of profit becomes $(N.l \times P' - N.l \times C.w)$.

Thus, on the assumption that the whole cost is in the labour and that the whole of the increased production is sold, the profit, after the increase in productivity of labour and the increase in wages, will be the same as before

if $$N.l \times (P' - C.w) = N \times (P - C).$$

Now, by the hypothesis, l is greater than unity, so that without diminishing the total of profits, a price P' can be adopted such that

$$(P' - C.w) \text{ is less than } (P - C)$$

and, transposing the terms,

$$(P' - P) \text{ is less than } (C.w - C)$$

$$\textit{i.e. } \frac{(P' - P)}{C} \text{ is less than } (w - 1), \textit{ i.e. } \frac{W}{100}.$$

Thus, in particular, the new price can be equal to the old price, in spite of an increase in wage-rates, without diminishing the total figure of profits; and it follows that if wage-rates are increased by an amount slightly less, the total figure of profits can be increased as well (the reduction in effective demand from wages in this event being offset by an increase in effective demand from profits).

amount in each case so as to give the population, taken all together, an increased purchasing power adequate to carry out the exchange of the increased total production of the community (and this is shown to be theoretically possible while allowing at the same time an increase in the total figure of profit), the ultimate economic disturbance could equally be avoided.

In other words, the position is this: that, **on account of improvements in the productive capacity of the unit of human labour, the equilibrium of trade is itself unstable, quite apart from extraneous instability due to alterations in conditions outside the actual processes of production and exchange.** The results of this instability are apparent; but because of the intervening medium of money and the complexity of trading conditions in real life the results are not clearly linked with their true causes.

And it is clear, subject to the qualifications discussed in Chapter II, that in order to maintain stable conditions of trade over a period of time something else is required, in addition to the maintenance of a balance of wages among themselves. Total purchasing power available in the community as a whole has to be of suitable amount; and the conclusion is that the appropriate figure for the total purchasing power in the community is dependent upon the community's quantitative capacity of production. Or, if we use the term money instead of "purchasing power," we must say that **there is an appropriate figure for the total money earnings of the community as a whole; and the appropriate figure is dependent on the community's quantitative capacity of production as well as on the price level.** As the community's productive capacity increases, so must the total purchasing power of the community be increased in order to maintain "balanced production."

Another Theoretical Example to show the Effect of an Invention which creates a New Demand.

Assume, as before, that a simple self-sufficient community is divided into two equal groups producing articles A and B, the sole articles of consumption; and assume that money is the medium of exchange and that the total purchasing power of the wages, together with the normal profits of the owners of the capital invested in the production of articles A and B, serve just to buy up the whole production of A and B at their constant rate of production; and assume, for simplicity, also an even rate of purchase per head.

Now assume the sudden planting down, as it were from nowhere, of a complete third group of equal numbers (for simplicity again) of workers and owners of capital, who together can produce immediately to "full capacity" a new article C which becomes of universal demand among the community, but only after the

satisfaction of their customary demand for articles A and B. And, because we must naturally assume that the new members of the community want articles A and B (as well as their own product C) like the rest of the community, let us assume that the two older groups have from the very same moment introduced, as in the previous example, improved methods of production whereby each of the two groups can increase its production by 50% without any increase of labour (so as to admit of the possibility of "feeding" the increased numbers of the enlarged community with articles A and B without difficulty forthwith).

Wages must be paid to the new workers, of course, from the outset, or they could not purchase articles A and B; and it may be that the community will have to increase its money facilities for this purpose. We need not at this stage go into the method of doing that. But we can examine the resulting position on the assumption that an increase of money or credit-supply is suddenly created for the purpose of "appropriately" increasing the volume of purchasing power in the community as a whole, so that wages of the new group can be paid on the same "level" as wages in the two older groups.

On this assumption of an increased supply of money and credit nicely adjusted, as required, to yield no awkward glut or shortage of currency, certain things can happen.

Let us examine the results in two events, namely:

(1) If prices of articles A and B are not reduced, or, being reduced, are not reduced by a "sufficient" amount, and

(2) If prices of articles A and B are reduced so as to secure the same total profit in each group as before, on the assumption that the whole increased production is sold in each case.

We will again avoid the unnecessary complication arising from the influence of extraneous factors of instability outside the ordinary economic processes of production and exchange by imagining the economic results once again "squeezed" back, as it were, into the present moment.

Under the first alternative, articles A and B can be purchased by each member of the enlarged community to the same quantity per head as before; but, on the other hand, after the habitual purchases of articles A and B there will not be enough purchasing power among the people to buy up the whole supply of article C. At the same time, by virtue of bigger sales in A and B, the total figure of profits over a certain period in those groups will have increased very considerably.

But this increase in the profits of the A and B groups may be much less than is required to buy up the whole production of the new C group (we assumed that article C was universally desired). In that event the sales of C become deficient and there is unemployment.

And the results are, therefore :

Increase in wealth of capital investors in A and B, and
Unemployment in the C group, causing in its turn
Reduced purchases of articles A and B on the part of the workers in C; which again in its turn results in
Reduced employment and/or reduced earnings in the A and B groups; and so on cumulatively, unless again some deliberate move (or some hazard) restores a healthy balance.

Under the second alternative, that is if reductions are made in the prices of articles A and B and the reductions are " sufficient," each member of the expanded community could buy the same quantity of articles A and B as before and have some purchasing power left over to buy C as well.

Whether the whole output of C could be bought would depend on other factors, such as, for example, the relation of the amount of labour (and so consequently the cost) involved in the production of each article C to the amount of labour involved in the production of A or B. These factors need not be further investigated; but if the reduction in prices of A and B were such as would enable the community to absorb the whole increased production of A and B and also yield the same figure of total profits as before, the attainment of the balanced production discussed in Chapter II would then depend upon spreading any surplus labour from the C group so as to secure a new balance in the community's whole production of the three articles A, B and C.

As before, the economic disturbance caused when prices are not reduced could be equally avoided if wages were increased by an appropriate amount instead.

But, whichever of the two alternatives required to avoid economic disturbance were adopted, the simple example illustrates a further important feature of economic life : namely, that if unemployment occurs as the direct result of increases in the community's quantitative capacity of production, the invention and production of new articles to meet a new demand will hardly serve *by itself* to absorb the unemployed. That it should ever do so by itself, without the accompaniment of some deliberate measures of adjustment, is an extremely improbable hazard. For it is seen from the example that if the purchasing power of the workers in A and B is not increased (whether by a general reduction of prices or by general increases of wages), the means of purchasing new articles would not normally exist except in that element of the community's purchasing power which was shown to accrue for a certain period to the owners of capital invested in the " prosperous " industries A and B.

CHAPTER III

MONEY AND PRICES: WAGES AND TRADE

Prices and prosperity—The Quantity Theory of Money and its limitations —Analysis of stability—Stability of value of the money-unit.

Prices and Prosperity.

It is common knowledge in this fourth decade of the twentieth century that prices can be considerably affected by the policy of the authorities in charge of the country's money (including both currency and bank credit).

It is also a well-recognised truth that the prosperity of business in general depends on the maintenance of an "adequate" price-level.

These two considerations, taken together, have led to a widespread belief that all that is required to secure business prosperity is a skilled "management" of the money-factor.

But this is very far from the truth.

Currency (together with money-credit) is primarily the medium for carrying out the exchanges of goods, etc., for one another. It is true that the prices of goods in general can be raised by increasing the number of currency units available for the community's use when there is no accompanying increase in the quantity of goods (etc.) effectually exchanged for one another through the currency medium. But a situation which involves the circulation of a greater volume of money without any increase in the quantity of goods represented by that money is not an improvement in trade.

The "adequate" price-level on which each entrepreneur's business depends is, in truth, only maintained if an effective demand is maintained in relation to supply. The supply of his goods depends on his prospect of profit (and his

estimate of that prospect), but the volume of effective demand depends on the volume and distribution of purchasing power available to other members of the community *by virtue of their employment in the production of other goods, etc.*

In other words, as profits depend upon volume of sales as well as upon price, the prosperity of every entrepreneur is itself dependent upon the volume of employment and the rates of remuneration in industries other than the entrepreneur's own. If the volume of that employment is diminished, or if the rates of remuneration in those industries are reduced, the effective demand for the entrepreneur's own product is likely to be diminished. When the productive efficiency of the entrepreneur's own industry increases, it is true that he may be enabled thereby to reduce his price and by that means possibly to evoke a bigger effective demand than before for his product. Nevertheless, the demand for his product is likely to be smaller than will serve to maintain a balanced production in the community unless either the volume of labour in *other employment*, or the purchasing power attaching to the average unit of such labour, or both taken together, result in an appropriately distributed increase of purchasing power in the community to correspond in a general way with the increase in productive efficiency of the entrepreneur's own business.

This important factor in the process of industry appears to receive insufficient notice in discussion. The influence of the money-factor on prices in general may be very noticeable and easily traceable; but the cumulative influence of this other factor of effective demand upon the prosperity of trade and industry in general is clearly very great; and it would be true to say that the *volume and distribution* of earnings from employment is more fundamental than monetary management as a determinant of prosperity. Money is only the medium and not the source of trade.

It is useful to illustrate this point further by reference to accepted economic theory.

The Quantity Theory of Money and its Limitations.

The relationship between money and prices has been theoretically investigated in what is known as the Quantity Theory of Money. This theory formulates the relationship existing between three factors in a community's economic life; namely, the "total quantity of goods (etc.) sold," the "total quantity of money used" in the transactions, and what is called, speaking broadly, the "general level of prices."

But a formula of relationship between those three factors has only a limited application. For one of the factors is by no means as simple as it looks. The "quantity of goods sold" represents, in fact, the quantity of goods that is both *produced and purchased;* and this depends not only on the "total quantity of money used," but also on the *manner in which that money is distributed.* Moreover, this dependence is twofold. For money not only represents effective demand ("quantity purchased") but, in its character of wages earned in employment, the same money represents a determining factor in supply ("quantity produced"). Nothing of this is revealed in the formula deduced from the Quantity Theory of Money.

In other words, whatever may be shown in theory to be the relation between the "quantity of goods sold" and the "total quantity of money used," the statement of such a relationship is far from sufficient to convey a complete picture of industrial conditions.

Without going into refinements, the position may be illustrated in a simple way by considering the statement of relationship between the three factors concerned according to the Quantity Theory of Money in its most elementary form. Take the imaginary case of a self-sufficient community of producers whose money is exclusively composed of actual cash. The elementary formula of the Quantity Theory of Money is then as follows:

$$\text{“The general price-level”} = \frac{\text{quantity of money used}}{\text{quantity of goods sold}}.$$

Obviously, the expression of a relationship between the three

factors thus, in the form of a simple equation, is extremely theoretical. But the formula so expressed is also very deceptive. It is misleading in several ways; for it is not a "true equation." If it were a "true equation" it would be possible to transfer the terms and to deduce that quantity of goods sold could be determined by the quotient:

$$\frac{\text{quantity of money used}}{\text{“the general price-level”}};$$

which, as indicated above, is not correct.

The formula expressed by the first equation is, however, correct in so far as it conveys that the "general price-level" depends directly, *among other factors*, upon the "quantity of money in use." There are, however, qualifications even to this. For economic factors are never static. The equation, therefore, does not admit of any other interpretation in practical life than a *tendency* to equality. And this qualification is important in two respects. In the first place, there is no indication of how quickly the tendency towards equality will operate. And in the second place, as was mentioned above, the "quantity of goods sold" can vary according to the manner in which the quantity of money in use is distributed, without involving an alteration in the total "quantity of money in use." That is to say, the tendency towards equality, correctly represented by the formula as it stands, might conceivably be counteracted in some circumstances; *e.g.* by a different distribution of the same total quantity of money. It seems fairly safe to assert that the influence of the distribution, as distinct from the sum-total, of money on the "quantity of goods sold" grows ever more important as mechanisation and cheap production increase.

It can thus be seen that the formula of the Quantity Theory of Money, while indicating in a theoretical way the relationship between three factors in economic life, pays no regard to the actual conditions of trade in general within which those factors operate. In other words, although the theory teaches something about the relationship between money and prices when the conditions of trade and industry

are given, the theory can tell us nothing about the conditions of trade and industry themselves.[1]

For these reasons it should be apparent that no policy derived from monetary theory which does not take into account the distribution as well as the sum-total of purchasing power can be by itself a solution of our economic disorder. Devices to secure stability of prices by controlling the quantity of currency are bound to be incomplete in their effects in so far as they do not pay regard to this consideration. Something different from the introduction of the "commodity dollar" is required; or at any rate something more than that.

The same point may be put in a general way as follows:—Monetary and banking policy do tend to play a part (in the long run) in the determination of prices, but their influence on industrial prosperity in general must necessarily be limited; because they cannot operate at all unless goods, etc. are being produced and *are also being effectually exchanged for each other* by virtue of the earnings of people engaged in their production. To put the matter in this way may appear at first sight to be labouring the obvious; but it is a fact that when monetary theory is introduced into economic discussions the significance of this full process of production *and exchange*, as being, in a manner of speaking, a pre-requisite condition for monetary and banking policy to have any practical efficacy at all, is often overlooked.

Analysis of Stability.

In the light of all this, it is seen that a full investigation of price-stability in general requires consideration as far as possible under the four following heads separately:

A. Stability of prices as they emerge solely from the relationship of the factors of supply and effective demand in the country's home trade.

[1] "The formulæ employed in the exposition of that theory are merely devices for enabling us to bring together in an orderly way the principal *causes by which the value of money is determined*" (Pigou). The italics are ours.

B. Stability in the value of the country's unit of currency in terms of some standard of value (whether the standard be a certain weight of gold or an index-number of the prices of representative commodities is immaterial at this stage).

C. Stability of prices in other countries (*i.e.* again of prices as they emerge solely from the relationship of supply and effective demand in those countries), in so far as those conditions may affect trade with the country in question.

D. Stability in the value of the country's unit of currency in terms of the units of currency in other countries with which it has trade relations.

In actual fact all the above are to some extent interactive on one another. Nevertheless, there may be primary causes of departure from stability which fall quite clearly and distinctly under one or other of the above heads. Thus, for example, the wiping out by earthquake of 50% of the population of country X might cause a departure from internal stability, and this would fall under Head A. The issue of money by a Government (*e.g.* for the purpose of paying its servants) without "backing" in the form of a sufficient volume of receipts from its people to cover the payment would fall under Head B, and so on.

It is clear, in the first place, that stability in the conditions of industry in other countries under Head C is not within the control of the country in question; nor can the country entirely control stability under D, seeing that the value of the country's unit of currency in terms of the units of currency in other countries depends as much on the circumstances and policy of other countries as on those of the country concerned. But it is important to notice that if we assume stability in any country under Heads A and B, then C and D taken together involve stability between that country and other countries. And this can be expressed in ordinary language by saying that if all countries, freely trading with one another, each maintain internal stability under both Heads A and B, the rates of exchange of their

units of currency will tend to be stable, whatever be the actual standard of value adopted for the unit of currency in each case.

Stability under Head A has already been discussed in the preceding chapter. It was shown in that chapter that the stability implied in the term "balanced production" cannot be maintained unless money-wages retain a balance among themselves and are increased as the community's productive capacity increases.

Here it is necessary to examine further in a comprehensive way how prices in general will be affected by the increases in money-wages shown to be required from time to time.

Stability of Value of the Money-unit.

It is clear that the total number of money-units [1] utilisable in a community's economic life is dependent on the total value represented by all the goods (and services) in the community which are both available *and* "*exchangeable*" by virtue of the existence of purchasing power in the hands of consumers.

But this is simply another way of saying that an increase in the volume of goods, etc. made available *and* "*exchangeable*" will permit of some increase in the number of the units of currency utilisable in the community without upsetting the general stability of prices, *i.e.* without affecting the value of the unit of currency in terms of a standard. It is to be emphasised, however, that the increase in "exchangeability" must take place in appropriate balance with the increase in production; in other words, the increased money must be distributed in appropriate quarters.

The appropriate distribution has already been discussed, and its general nature defined, in the preceding chapter. That chapter showed what is required within the community if the stability implied in balanced production is to be maintained. In so far as the requirements might call for the use of more currency units in the community, it is now seen that this will not have any adverse effect on the

[1] *I.e.* not merely cash or notes, but money in every form.

"value of money" so long as the conditions of balance indicated in the preceding chapter are preserved.

Thus, whenever the essential requisite for balanced production, namely balanced wages, is disturbed (in particular, whenever unemployment occurs as a consequence of improvements in industrial efficiency) then, provided that increases and adjustments of wages are devised so as to secure a re-approach to the condition of balanced production, the additional currency required *solely for that purpose* will not lower the value of the unit of currency. Additional currency is likely to be actually required in the community for that very purpose, and the amount of the additional currency required is the amount necessary to carry out the new distribution of wages which serves to restore the situation of balanced wages which has been upset.

The same thing may be stated in another way as follows:—While an increase in the community's capacity of production will tend, unless a corrective is applied, to diminish employment, an *appropriately distributed increase in the general level of wages* will serve to counteract the tendency to unemployment by securing the increased "exchangeability" of goods which is required to balance the increased capacity of production.

In case any reader having a passing acquaintance with the Quantity Theory of Money is tempted to regard the last few paragraphs as a contradiction of that theory, a little further consideration should reassure him, if the above brief discussion of the theory has not already done so.

The simple formula considered above was as follows:

$$\text{"The general price-level"} = \frac{\text{quantity of money in use}}{\text{quantity of goods sold}}.$$

It is seen from this that the "general price-level" will not be affected by an increase in the quantity of money in use, provided that there is a corresponding increase in the "quantity of goods sold"; that is, in the quantity of goods produced and purchased. But the quantity of goods produced and purchased is determined by the way in which purchasing power is distributed among the various industrial

groups. Its more or less is, in fact, principally determined in a modern community by the degree to which the community's industrial life approaches or departs from a balanced production.

And as some readers may even yet be inclined to think that this conclusion is possibly fallacious because it is derived from a too elementary statement of the Quantity Theory of Money, it will be shown that the same conclusion can also be inferred from a more elaborate statement of the formula of that theory.

There are various ways of stating the general theory. The following is taken from Mr. Keynes' "A Tract on Monetary Reform," 1924, p. 42:

> "The Quantity Theory of Money states that the amount of cash which the community requires, *assuming certain habits of business and of banking to be established*, and assuming also a given level and distribution of wealth, depends on the level of prices. . . . The theory infers from this that the *aggregate real value* of all the paper money in circulation remains more or less the same, irrespective of the *number of units* of it in circulation, provided the habits and prosperity of the people are not changed."

With reference to this statement of the Quantity Theory, "the habits of the people" regarding utilisation of cash, etc. change very drastically when the individuals themselves pass from a condition of destitution, or even from a condition of financial support from unemployment insurance, to a condition of stable employment and earning of wages thereby.

This last is a consideration with which the Quantity Theory of Money is not directly concerned; and it is the failure to pay regard to the importance of this kind of consideration which constitutes the fallacy in the argument of those who deduce from the Quantity Theory of Money that our economic problem can be solved by monetary policy alone.

That the value of the unit of currency will not be affected by the wage adjustments shown to be required for restoring and maintaining internal balance can also be seen in a general way as follows. While it is correct to state that the

value of a country's unit of currency has a fairly direct relation to the "cost of living," the cost of living is itself a term only applicable for practical purposes to those who utilise the currency. If by virtue of a nearer approach to balanced production more people can be employed, and so more people utilise the currency for carrying out a larger volume of exchanges of goods for goods, etc. the value of the unit of currency will not be adversely affected.

CHAPTER IV

THE FOUNDATIONS OF CONFIDENCE AND CREDIT

The whole field of credit—The foundations of confidence—Practical illustrations—Money-credit—The deficiency in our present system—General conclusions.

The Whole Field of Credit.

It is a commonplace to assert that the whole structure of a civilised community's economic life is founded on credit. But while this statement is almost self-evident, it will be realised from what was said in regard to wages in the discussion of balanced production in Chapter II that the statement is true to an extent not always understood or fully appreciated.

In practical life, to give credit commonly means to transfer purchasing power to someone else who undertakes a liability to restore the same purchasing power (or its equivalent) at a later date. But the whole field of credit on which economic life depends really comprises more than the mere lending of money.

It was noted in Chapter II that wages themselves, although paid as a rule only after labour has been given by the worker, are in effect nothing but a " credit " from the community to the wage-earners for which the employer, as a mediator who undertakes to utilise the labour and to sell the product, in effect stands as a sort of surety.[1]

From the point of view of the community as a whole, the " credit " represented by wages is exactly the same in nature as the credit commonly spoken of; for example, a loan at the bank. The basis of the credit in both cases consists simply in the existence of a belief in the recipient's honest intention to fulfil the ordinary obligations of industry and commerce, together with a further belief in his ability to do so.

[1] See page 22.

This essential identity, from the community's point of view, of "credit" in the form of wages with credit in the form of a money-loan (or its equivalent) can be illustrated further by the statement that the worker who receives pay for a job badly done and the man who does not meet his obligations of monetary indebtedness when the time of fulfilment arrives are each committing a "wrong" upon the community of precisely the same kind. The difference, if any, is only one of degree.

The whole of industry and commerce is based on this "credit" in the widest sense—that is, simply the grant of a purchasing power in anticipation of its "liquidation" by the ordinary trade processes; an intangible but a very practical thing. And just as the giving of credit, in the narrower sense of a loan of money, calls for a belief and expectation on the part of the giver in an intention and an ability on the part of the receiver to fulfil his obligations towards the maintenance of the general process of industry, so is a similar trust in effect revealed by individual business men in the payment of wages to their employees.

The argument of the previous chapters shows that in the interests of the whole community the grant of "credit" in the form of wages ought not to be left entirely without some guiding control within certain general principles any more than bank credit is entirely unregulated.

This, after all, is no more than an endorsement from another point of view of what is otherwise readily perceivable on general grounds; namely, that the mere grant of credit is not primarily what is wanted by the business man. It is no use just offering a business man the easy use of credit. Before he will accept such an offer he wants to feel assured that he can utilise the credit to meet an effective demand for his goods or services, etc.

Money-credit can only be utilised in industry if a situation exists which prompts the use of it; and that situation is the existence, or the promise of the existence, of an effective demand for goods and services. In other words, while the credit required in practice by prosperous industry is itself in the form of loans representing liability to repay the

lenders in money, the necessary predisposing cause of each business man's requirement of such credit is the existence, or the expectation of the existence, of the other kind of "credit" elsewhere. This "credit" is the anticipatory purchasing power expressing itself, or expected by the business man soon to express itself, in an effective demand for goods by the whole community of ultimate consumers, whose effective demand is conditioned by the wages of those in employment.

The Foundations of Confidence.

It was found in Chapter II that full employment cannot be maintained unless wages are maintained as far as possible in balance among themselves and are also progressively increased to match the increases in the community's productive capacity.

It may be that the business man who, mediating between the community and the wage-earner, has to give the increased "credit," *i.e.* has to increase the minimum wage in his industrial unit, in accordance with the regulation imposed by the properly constituted authority, may at first be disposed to say: "Where do I come in? It is all very well for some outside body to say what adjustments are to be made in the 'foundation-wage' from which my whole wage structure is to be compiled; but mine, after all, is the expenditure. It is I who am actually liable. Where is my security?" The answer is that his security is effectually established by the similar adjustment of foundation-wages in other industries. His security rests on the fact that to match the increase in the general productive capacity of the community an increased purchasing power is granted *elsewhere throughout the community* as well as in his own industrial group. As shown in previous chapters, without the appropriate increases in purchasing power throughout the community, his own as well as others' prosperity is constantly threatened; with it he, like the rest of the business community, benefits by an additional element of stability which he never enjoyed before. In fact an appropriate increase of "credit" in the wider sense, *i.e.* in the

form of wages, throughout the community when improvements occur in industrial efficiency, is precisely what the continued prosperity of business requires, together with a maintenance of balance between groups all the while as far as possible.

But another point, which also has an important psychological aspect, deserves attention.

Given the regulation of foundation-wages (normally in practice a common minimum wage for the whole country) by some properly constituted authority, entrepreneurs and managers of industry generally would be relieved altogether of any responsibility to assess the minimum wage for their own industry. Their responsibilities in respect of wage scales would then become limited (as, indeed, does it not seem more appropriate that they should be?) to the domestic field within their own undertaking, the essential problem within that field being the problem of the *relation* of all the wages throughout the hierarchy of that undertaking to the minimum wage laid down for the industry, which would serve as the foundation of the whole wages structure in that industry.

How much more amenable to agreement between employers and employees would be the wages structure of each industrial unit, if only the foundation-wage on which the whole wages scale is to be constructed were determined independently by a national body in accordance with principles that were known and understood by all! By such regulation the causes of conflict between labour and capital should be very greatly diminished.

It is also worthy of note that under such wage-regulation as is indicated, a refusal on the part of workers to accept any lower rate of wages than as laid down by the properly constituted body becomes exalted from being a selfish attitude to one of responsibility towards the community as a whole. Moreover, since the regulation of wages to maintain balance (in the twofold sense indicated) will bring about a constant approach to full employment, individual workers will no longer feel any need, from the point of view of safeguarding their own personal interests, for a rigid demarcation

of labour between one class or grade and another. The existing practices in this respect, very understandable from the human point of view in the present unregulated condition of industry, would no longer find any justification, even on a superficial reasoning, when by the appropriate regulation of wages employment is kept at the maximum.

Nevertheless, some people may be inclined to think that the regulation of foundation-wage rates would amount to an undue interference with business.

Let those who incline to take this view recall in the first place that there are Trade Boards already in existence fulfilling this very function, by laying down, with statutory authority, the minimum rates of wages that must be paid in several trades. There is also an Agricultural Wages Act, 1924, under which the same function of laying down minimum rates of wages for agricultural labourers in the various counties is performed by Agricultural Wages Committees (subject only to the higher judgment in certain circumstances of the Agricultural Wages Board for England and Wales as a whole).[1]

But apart from the fact that some minimum wages are already subject to regulation, the merit of such regulation of wages throughout industry on principles that can be shown to be well-founded would seem to be fairly clear from general considerations. For the regulation of wages is a regulation of what is in effect the primary factor in the complicated course of trade; and, because that factor is "primary," the imposition of a datum line for the foundation-wage is by no means the same as interfering with industry.

[1] It is interesting to see on what principles the Agricultural Wages Committees for the various counties are expected to form their judgment of what the appropriate minimum wage of the agricultural labourer should be.

Section 2, sub-section (4) of the Act reads as follows:—"In fixing minimum rates a committee shall, as far as practicable, secure for able-bodied men such wages as in the opinion of the committee are adequate to promote efficiency and to enable a man in an ordinary case to maintain himself and his family in accordance with such standard of comfort as may be reasonable in relation to the nature of his occupation."

The definite principles of wage-regulation which emerge from the discussion in this book would appear to be based on more scientific foundations than this; and in any case they are not more difficult of definition and application!

Industrial activity starts in effect from that datum line; and the proposed regulation is shown to be necessary for the purpose of achieving the very stability of effective demand in relation to supply which business men themselves most keenly desire.

To take the view that a regulation of wages in the manner indicated is an interference with the business manager's true responsibility is to adopt the misleading point of view of looking at industry unduly "from the producer's end." The tendency to do this exists because the producer appears to be, as it were, the starting-point of the industrial process, seeing that he initiates the investment of capital towards employing labour. He is not, however, the true initiator of the business process. He perceives the opportunity of profitable enterprise and takes it; but the opportunity is there first in the living unit of population. It is the existence of a potential consumer that renders the producer's opportunity possible; and it is the very kernel of the economic problem that the consumer's potentiality as a source of producer's profit only materialises when the consumer has purchasing power to make his demand for goods an effective demand.

The whole economic problem is a problem of balance, a problem of relationships without absolute measure; and many factors play a part in the roundabout process of industry. But the wages of the living unit of population are unlike everything else in being truly a fundamental factor in this sense; that they are the element which constantly revitalises, as it were, industry's circular movement.

In brief, it is possible to have regulation of wages on the lines indicated without any detriment to independent management in those industrial activities which the community wants; and without such regulation industry itself lacks under modern conditions the basis of stability on which its prosperous continuance depends.

And the foundation of the business man's confidence in granting the increased "credits" in the form of wages which may be necessary from time to time would be, first,

the trust which can be placed in the competence of that body of persons, suitably chosen, whose function it would be to watch and decree the regulation of minimum wages (the practical aspect of this problem is dealt with later), and secondly the confidence that the adjustments of minimum wages decreed by the authorised body will effectually achieve the stability of industry which the business man desires. These are considerations arising in regard to the *justifiable foundations* for confidence. Apart, however, from the theoretical argument as to the foundations for such confidence, it can be taken for granted in practice that business men's confidence remains unimpaired as long as business is good *in fact*. It will accordingly suffice for business men's confidence that the regulation of wages on the lines indicated will, by maintaining internal balance, secure the continuance of healthy industry. There will be nothing *in the facts* to impair the enterprise which business men are ever ready to undertake when a prospect of profit offers itself.[1]

Practical Illustrations.

It is useful to illustrate the position in more particular detail. Suppose, for example, that a commercial invention were introduced whereby all furniture might be manufactured with only a small fraction of the labour at present required. What would happen under present conditions?

First, the industrial unit introducing the invention would be remarkably prosperous. It would doubtless reduce its price and would, even so, secure bigger profits than before on the same production. It would also in all likelihood expand its production.

Thereafter, besides the emergence of some degree of

[1] If business is not good or does not promise to be good in fact, the confidence required for business enterprise cannot be evoked by any other means. In particular, the confidence required for healthy trade is not to be *maintained*, even if it can sometimes be lured on false hopes to a temporary life, by merely suggesting that business men ought to be more enterprising, or by appealing to them to be so.

Every entrepreneur *wants* to respond to an appeal for "confidence" in the way expected of him, if only he can see that the extension of his enterprise will be profitable. But his prospect of profit depends on demand from other quarters as well as on supply by himself; and the only way to maintain a justification for the business confidence required is to keep wages "balanced" (in the two-fold sense).

unemployment, which would hardly in the circumstances be fully absorbed by the expansion in production of furniture, there would be a tendency for the workers retained in the industrial unit concerned to force from below higher rates of wages, which they would regard as a just means of sharing the increased profits.

The intention is, of course, excellent. But it tends to defeat the community's general interest in two ways. By its tendency to increase the cost of production and so consequently to increase the price of furniture to a level higher than it otherwise would be, it impedes to that extent, however slight it may be, the expansion of demand for furniture which would otherwise enable more of the surplus labour to be employed in the furniture trade; and at the same time, by reducing the profit which would otherwise accrue, it counteracts to that extent, however slight it may be, the stimulus which puts the entrepreneur in a disposition to expand production and so produce a larger supply for the general consumer.

While the extent of these impediments in any one case may be slight, the cumulative result of many such cases can be very considerable and can bring serious detriment to the community as a whole.

The interest of the community as a whole is twofold. In respect of profits it is the community's interest to allow these to be as large as will stimulate production for the supply of more and more of the consumers' wants. Pressure to keep profits in any particular industry within reasonable limits comes best from competition in the ordinary course, and not from an upward movement of wages in the successful industry alone. As regards wages, it is also in the interests of the whole community that wage increases should be given; but not that the wage increases should be confined to the few engaged in the successful industry by their forcing a "share" in increased profits. That will tend to upset "lateral balance." The wage increases which the improvement in productive capacity has rendered possible and, as shown in the analysis, necessary in the interests of all, must be spread throughout the community, and

not isolated to the one industry. In this way all receive a share in the community's increased prosperity, and by this means we invite or compel the business man (and there are many business men who would welcome such "compulsion") to secure the maximum profit which is his constant aim, *by widening the market for his goods rather than by exploiting a narrow one.*[1]

The whole analysis also reveals that the argument for reducing wages in a time of industrial depression is possibly fallacious unless it should take into careful consideration where reductions in wages are actually called for with a view to *restoring "balance"*; and whether, indeed, balance cannot be better restored by raising the wages that are low rather than by reducing any wages at all.

The policy of wage-reduction in a particular depressed industry has the superficial attraction that the maintenance of the price of the product in spite of decreased labour costs, or a reduction in price made possible by the decreased labour costs, appears to promise the increased profits (or the wiping out of losses) which the entrepreneur requires to foresee before he extends his business activity. But this may well be a false trail if its merit is not adjudged in conjunction with the aspect of purchasing power *outside* the industry. For example, to reduce the wages of coal-miners because not enough coal is bought is a poor alternative to increasing the

[1] It must also be remembered that the marginal nature of profit in an industry of mass-production (*i.e.* the fact that profits only accrue after a certain minimum volume of sales is achieved) itself renders the plea for increased wages in that industry *simply because profits happen to be high* a fallacious plea. If profits are unduly high, other correctives should be brought into play. Normally the force of competition is sufficient for the practical purpose.

It is hardly necessary to add that schemes of profit-sharing as such do not run counter to the general argument in the text. So long as profit-sharing is superimposed upon a wage-level otherwise determined in accordance with the principle of a balanced production there can be nothing against it. When the wage-level is already determined on such a basis, profit-sharing amounts to a gesture of inducement towards better work or a gesture in recognition of co-operative effort between employers and employed. In such circumstances the distribution among the wage-earners of some of the profits is simply a distribution at the expense of the owners of the capital. This is not a disturbance of balanced wages.

Similarly, bonuses for speedy work, or for especially good work, etc. do not tend to disturb balance if basic time-wages are themselves in balance with other wages throughout industry.

wages *outside* the coal-mining industry, provided that such an increase is likely to tend to more purchases of coal and to carry no other detriment to the community as a whole. The problem of determining whether the latter condition will be fulfilled resolves itself ultimately into the problem of appropriate relativity among wages, on which balanced production depends.

Another illustration of the same point can be given by looking again at the contrary picture of a prosperous business. Great prosperity in one particular industry calls for an increase in the *general level* of wages and not only an increase in that particular industry alone. The latter process merely introduces a tendency to disequilibrium which did not exist before. It is clear, for example, as already illustrated in the imaginary instance of the furniture industry, that an increased productive capacity in the industry, however much it may be regarded as justifying an increase of wages within the industrial groups directly affected, is better utilised in the community, and is more to the benefit of the industry itself and all concerned, if purchasing power is increased *outside as well as within* those industrial groups than if it is increased only within them.

Two further illustrations can usefully be given, because they also have an important significance in the general argument.

It is possible, without deliberate wage-regulation in accordance with the principles indicated, to counteract the tendencies to unemployment by other means temporarily and to a limited extent. For example, if any single industrial group is prosperous, and wages and profits in that industry are increased, those who earn wages by their employment in that industry and those who take the profits from it will be able to use their increased incomes to buy articles, etc. for which their former resources were insufficient (the articles concerned would be, relatively speaking, luxuries); and this will tend to bring about a certain increase in employment in order to meet the new demand.

It is to be expected that, owing to the multiplicity of articles in general use, whether mass-produced or otherwise,

the simultaneous prosperity of several industries may in such circumstances give rise to a situation of " partially balanced production " and may conceivably result in a fairly high degree of welfare among a not inconsiderable proportion of the population. The position is then, in effect, that those people will be successfully carrying out a (more or less) balanced exchange of their respective products with one another, while jointly they will secure the advantage of the cheaper-priced production of the industries whose prosperity they have out-distanced. But this is no approach to the balanced production *throughout the community* which is required. Unless the increases in purchasing power, shown in theory to be continually necessary to balance the continual increase in the community's productive capacity, are applied so as to maintain balanced production throughout the community, the area of increasing employment arising from the limited prosperity signified by the " partial balance " presupposed must come to a check. It will be checked at the boundary where the desire for all or any of the products of industry ceases to be an effective demand; and that is the boundary beyond which remain all the individuals who are either out of employment or who are employed in the industries which have been left in relative depression and whose wages in employment do not " go as far " as those of " equivalent " labour in the prosperous industries. And as further improvements occur in industrial efficiency the number of those beyond the boundary will increase.

It follows that there can never be any good reason for hoping that a condition of relative prosperity in a limited area of industry will develop of its own accord into a solution of unemployment. To maintain balanced production there must be a balance of wages among themselves as well as an upward progress in the general level of wages from time to time. Increases of wages distributed in a manner to upset the " lateral " balance can only have the effect of *postponing* a depression of trade. They cannot avert it. Unless wages are kept " balanced " in the twofold sense, it will not be possible to avoid an alternation of " boom " and

"slump"; and the more serious the departure from balance, whether from "lateral balance" or "forward balance," the more serious must be the extent of the depression that will inevitably follow unless balance is again restored in the manner required.

Again, steps may be taken by Government towards adjusting individual incomes by taxation.

Attempts have been made in this direction. The more wealthy have been taxed for the benefit of the poorer in accordance with what is assumed to be a better distribution of the community's wealth and income; and the revenue so obtained has been devoted to social services of one kind or another or to Government or municipal schemes of construction. Such services and schemes may be desirable, and even necessary in themselves. But, apart from the fact that the taxation may, when pushed beyond a certain point, prejudice the amount of luxury expenditure (such as that referred to above) which would otherwise to some extent temporarily offset the tendency to unemployment, it can readily be seen that such a procedure is not likely to bring great relief to a situation of considerable unemployment. For when the object to which the proceeds of taxation are devoted is not in the form of a distribution of actual money or its equivalent (*e.g.* material goods universally desired, such as cheap or free food, subsidised houses, etc.) but is a "social service" in the stricter sense (*e.g.* an addition to public education services, building of museums, parks, hospitals, etc., or a provision of other amenities which do not amount to a distribution of material goods) it cannot, however desirable the service may be in itself, go far to meet the essential requirement, which is a balanced production implying that goods and services shall be *produced and effectually exchanged for one another* to the extent required for a fully employed population. It does not, in fact, sufficiently remove the fundamental defect, which is the lack of a constantly balanced purchasing power among individuals *arising from their employment in the production of goods, etc. requiring to be exchanged for one another.* Such a balance can only be achieved when earnings in any one

quarter are matched appropriately with earnings in all other quarters, and can only be maintained when increases in purchasing power are matched appropriately, in the manner previously indicated, with increases in the community's productive capacity as a whole.

Money-credit.

Every aspect of the argument so far points not only to the necessity but also to the practicability of some regulation of wages internally in each country, in accordance with the guiding principles indicated.

The complications arising from the impacts of international trade and international money transactions have yet to be considered in a later chapter.

At this stage two aspects only of these international factors need to be considered. One relates to international trade and one relates to international money transactions.

As regards international trade, in the present situation of unbalanced production internally in each country, the arguments for and against protective duties etc. are arguments pro and con in multiple directions which can hardly be weighed in merit one against another; for there are too many consequences acting and reacting in many directions to and fro. But given an appropriate regulation of wages internally so as to secure always an approximation to internal balance many of these complications disappear. The merits of different kinds of protective policy then admit of a true and full assessment, and the essential issues in the problem of international trade are much simplified.

As regards international money transactions, it has sometimes been stated that the prospect of a higher profit from investment abroad than is seen to be possible at home serves to divert to foreign countries money which would otherwise be invested at home with benefit to employment. But it is by no means proved, and it is certainly not obvious, that the demand for money for investment in home industry has ever been or could ever be prejudiced solely because money-credit available for investment is too much used abroad. On the contrary, it is almost a truism that if any

enterprise promises to yield a "sufficient" profit, money will be found to carry it out; and this "sufficiency" of profit which is required to induce the investment of money in enterprise does not depend on the relative reward of capital invested at home and abroad; it depends solely on the degree of profit offered by the enterprise itself in comparison with the risk entailed.[1] Business men do not lack enterprise. There need be no question of any shortage of demand for money in legitimate industry if only the profit anticipated is not regarded as too small in comparison with the risk.

For the purpose of a full investigation of "the foundations of credit" it is desirable to look further into certain particular aspects of the utilisation of money.

In a general investigation of the use of money-credit from the community's point of view three questions present themselves. What amount of money-credit is it desirable to use for commerce and industry in order to secure the country's best interests? How far will the demand for money-credit attain to what is desirable? And how far will the supply of money-credit also attain to what is desirable?

As to the first question, the brief answer at the outset is that the amount of money-credit desirable is such as will serve to maintain a balanced production, meaning maximum employment, within the community.

It will be noted, incidentally, that the amount of money-credit required for trade is not essentially dependent on the amount of wealth which happens to have been saved from the past. The essential nature of a money-credit is nothing but the creation of a money-liability to be liquidated at a future date; and although in practice the amount of wealth saved from the past does play a part in the volume of money-credit utilised, it does so only indirectly and only because normally the (transferable) wealth accumulated from past saving is required by lenders of money-credit as security for their loans.

[1] It is true that the transmission of money abroad may have an influence on general trade activity in another way, indirectly. This is examined in the next chapter.

And not only is the amount of wealth saved from the past no criterion for determining the volume of money-credit which the country's trade requires, but the amount of wealth saved from the past is in no sense a measure of the country's capacity for using money-credit in industry. The extent of the country's capacity to use money-credit depends upon the possibilities of effectually exchanging for one another the goods (and services) which the country can produce; and the extent of these possibilities is only realised when balanced production is maintained.

As to the demand for money-credit, it is self-evident that if measures can be adopted which serve to maintain balanced production within the community, the demand for money-credit to be utilised for "legitimate" industry within the country will not be lacking; for the maintenance of balanced production implies a continuance of prosperous industry and therefore the continued prospect of profit, which itself gives rise to the demand for money-credit.

This now enables us to give a more definite answer to the first question; for we can say that, if a condition of internal balance is maintained, the volume of credit required for the community's "legitimate" industry internally would be, broadly speaking, the amount which business men demanded to use under the ordinary conditions as to price, etc. attaching to its use.

So much for the amount of money-credit required and the amount demanded.

And as regards the supply of money-credit, it appears to follow that so long as balanced production is maintained there would be no need to put any check on the supply (other than in regard to the "respectability" of the borrower and the security he offers) in so far as the money-credit is required for legitimate industrial purposes internally, and not for undesirable speculation.

Here enters a difficulty; for in practice it is hardly possible for the lenders of money-credit effectually to distinguish between the demand for money which is intended for "legitimate" business internally and the demand for money which is intended for other employment, whether

this be for undesirable speculation or for transmission abroad. And thus two further questions regarding the supply of money-credit arise for consideration: first, whether any control is required, and if so what is possible to keep in check speculation which goes beyond what is useful for business? and secondly, whether any control is required, and if so what is possible, over money transactions in the international field?

These questions will not be examined fully here. Only certain aspects are relevant to the general argument at this stage.

As regards speculation it is to be noted, to begin with, that all speculation (so called) is not harmful to the community. On the contrary, some of it performs a useful purpose; for example, in diminishing price fluctuations due to seasonal or other temporary causes. In such respects speculation may be said to be required for "legitimate" business and to have properly earned its rewards. It has facilitated the exchange of goods for goods, etc., and so performed a commercial service, just like insurance or banking performs a commercial service, entitled to a due reward.

As regards other kinds of speculation (which might serve no really useful purpose for the community) in so far as such speculation keeps within bounds and is entirely liquidated within a short period, the losses of one speculator are the gains of another, and the legitimate trade of the community is not seriously affected. Some slight disturbance is caused by the diversion of personal expenditure on the part of the "winning" speculator from what would have been the objects of expenditure of the losing speculator if he had not lost; but that is, on the whole, negligible.

The presumed danger from speculation arises when the money-credit used for that purpose is *not* all liquidated quickly, but when for some reason or other the total volume of credit so used goes on increasing in an atmosphere of excitement; for example, on the tide of a "bull" movement on the stock exchange.

If this occurs to any great extent the abundant flow of credit on which the movement is based (it is not necessary to describe how the multiplication of such credit takes place)

results in a great multitude of "paper profits" which appear as bank deposits in favour of the individuals concerned and which so become available as purchasing power for goods in general; and in this way prices generally may tend to rise unduly or the balance of trade generally may tend to be upset in other ways.[1]

But whether or not this brief diagnosis of the unhealthy and undesirable situation created by excessive speculation is complete, or correct, does not matter here. What does matter is that it is universally recognised that there is need for some check on the supply of money-credit in an eventuality arising such as an excess of speculation brings about.

All that needs to be noticed for the present purpose is that, under our present system, there are already in existence methods of applying a check upon the two possibilities of "excessive" speculation or "excessive" transfers of money abroad. For it is the policy of the bankers in this country to regulate the money-credit available to their customers by relation to the amount of legal cash which they hold; and this amount is itself regulated, speaking in general terms, by relation to the amount of gold held at the Bank of England. If, then, money is transmitted abroad to such an extent as to require the physical transfer of gold from the Bank of England, the Bank's stock of gold is reduced; and so the volume of money-credit used in the community increases *in proportion to* the gold in store at the Bank. And, again, as speculation grows in volume, the credit used in the community also increases *in proportion to* the gold in store at the Bank. In either case, if the increase in the

[1] It is to be noted that a general rise in prices on the Stock Exchange is not the same as a boom in general trade, nor is a contrary movement the same thing as a depression in general trade. The truth is very far from this. It is rather that the movement on the Stock Exchange results from the *expectation in certain quarters* of a boom or depression in trade. (The expectation need not even be well-founded.) It is clear, therefore, that to the extent that trade maintains balance, to the same extent is undesirable speculation discouraged. Speculation flourishes most in times of violent fluctuation in trade.

Thus, if expansions of credit are brought into operation by the ordinary demands of business when wages are appropriately regulated in the manner indicated in previous chapters, such inflations of credit as may be caused by the demands of merely gambling speculators for the purchases of commodities, stocks, etc., are likely to be less in volume and less disturbing to normal trade than otherwise.

proportion goes beyond the point which is regarded by the responsible authorities as the limit of a sound financial position, the methods of check available to the Central Bank are brought into operation.

The Deficiency in our Present System.

And now the results of the whole discussion can be once more usefully summarised. Whereas the whole argument appears to show that, ideally, in order to secure the maximum degree of stability within the country it would suffice if there were :

(1) a regulation of wages in the manner proposed so as to secure balanced wages internally, and so (when accompanied by the appropriate adjustment to external conditions) a completely balanced production in the country as a whole;
(2) limitation of profits by competition when wages are so regulated, and
(3) a suitable control of the supply of money-credit in certain eventualities,

the position in real life is that, out of this complete list of all the requirements, the last two are sufficiently provided for, while the first is altogether absent. And it has also been indicated that, by reason of this entire absence of any regulation of wages on well-founded principles, economic disorder is inevitably brought about by the ordinary processes of industry and commerce themselves.

To look at the position from another point of view; although the total money-credit made available in a community is ostensibly determined by the need for supplying the community with the goods, etc. required, the absence of any centralised regulation of wages means simply that no attempt is made to build up a structure of " credit," in the sense of wages from employment, based on the need for an effective demand to match the supply. The creation of a credit structure implies a foundation as well as an elevation; and at present the edifice suffers because the foundations are not firm.

And to illustrate yet another aspect of the position in a less technical way. It was seen in the preceding discussion that the ordinary processess of international trade bring about a continual pressure to lower costs, *i.e.* ultimately wages, in the "unsheltered" industries of each country, and consequently to reduce wages or diminish the volume of employment in the "sheltered" industries as well. So, while any tendency towards an undue increase in the incomes derived from industry as profit is checked, generally speaking, by competition, there is no adequate check on the continual tendency towards reduction in the incomes derived from industry as wages. The attempts which we make at checking this downward tendency of wages are so far from being an appropriate regulation on well-founded principles that they merely serve to obstruct such automatic tendency towards balanced production as might otherwise come into play, and even sometimes to accentuate the departure from balance.

General Conclusions.

The potentialities of our industrial system are increasing persistently; yet we are barely utilising the fringe of them. The whole analysis reveals that even when we make an attempt to realise the potentialities we cannot, under our system, do so successfully unless wages are regulated in such a way as to remain in balance with one another and also to increase progressively as the productive power of the unit of labour increases. And, in view of what appears to be the only appropriate method of distribution of the requisite increases in wages, it seems that the differences in rates of wages between the higher and the lower grades throughout our economic life must not be rigid in amount, but reducible.

Thus, our practice in the past appears to have been unfortunate in two respects. Not only have we erred in allowing great differences to arise in the wages of different industrial groups where no reason of the community's interest could be held to justify those differences, but we have also erred in so far as we may have retained without sufficient justification rigidity in the amounts of the differences

between rates of wages in the vertical channel of industry. How often has the plea been heard that, because Grade X has received an increased remuneration of so much, members of the grade above X must receive an increase of the same amount, or even more, *e.g.* on a percentage basis! It has been shown that to concede a claim solely on those grounds without consideration of other factors may be definitely contrary to the interests of the community.

Many people have urged that the rigidity of wage rates is largely responsible for our economic troubles. They are right in objecting to rigidity. But their objection is not sound if it is intended to imply that wages generally should be reduced. On the contrary, the analysis has shown that "balanced production" within a community can hardly be maintained unless the lowest rates of wages should go on increasing. But the objection to rigidity is sound in so far as rigidity attaches to the amount of the differences in wages between the several grades in the vertical channel of industry. It appears that in the conditions of modern industry the progressive modification of the general wages-structure itself is an economic necessity, the modification being a gradual but persistent shrinkage in the amount of the difference between the wages of the lowest and the highest grades.

The analysis reveals that the real problem of the distribution of the rewards of industry, so far as it has a bearing on the solution of unemployment, is not essentially a problem of sharing the proceeds of each industry between those who work and those who take profit, but a problem of allocating the claims to share in the community's whole production (*i.e.* a problem of allocating purchasing power) between those engaged in any one industrial group and all those engaged in others. This problem resolves itself mainly and for all practical purposes into the two problems of relating wages in any one group to wages in all other groups and relating wages generally to the community's capacity of production.

The problem is one of relationships; and the analysis reveals how the appropriate relationships might be achieved and maintained in practice by the regulation of what we

have called foundation-wages, and that is for practical purposes the regulation of a minimum wage for the whole community.

The regulation of the minimum wage would in practice serve to determine appropriately the whole wage-structure of the community; for wages in the vertical channel of each industrial unit would necessarily find their own adjustment by relation on the one hand to the foundation-wage for the industry and on the other to the unit's need to secure an adequate profit in a competitive field. And by the regulation of a minimum wage we should be securing, in effect, that **instead of labour tending to compete destructively against labour for the employment that is vacant, employment would tend to compete against employment for the labour that is available.** The only competition of labour against labour would be a competition to fill the posts of higher " quality."

It might appear at first that this " competition of employment against employment for the labour that is available " would itself be a destructive competition in the sense that it might tend to force wages to an " unduly " high level. But there is little danger of this, because wages must in any case be ultimately determined by relation to the country's capacity to compete adequately in world markets. And if a common minimum wage is laid down for the whole country, then so long as the progressive increase in this minimum wage which is necessary to match the country's ever-increasing power of production is made gradually, the danger of outrunning the country's capacity to compete adequately in world markets can hardly be serious.

Thus, although the problem of determining the appropriate minimum wage at any moment does not admit of any precise arithmetical statement, that does not mean that the solution of the problem in practice is an impossible task. We can know when we are approaching the solution and we can also know when we are departing from it. In fact, to adopt a common minimum wage for the country as a whole, apart from serving to bring the home trade to the maximum, affords the easiest means of ascertaining whether the

country's general wage-level does or does not serve to impair its capacity to compete adequately in world markets.

Those who assert that the remedy for our economic disorder lies in the field of credit are speaking truth, but if they regard the malady as being only a deficiency in the volume of credit offered by lenders of money to those on whom the community has to depend for using it, or a "lack of confidence" among the latter, that is not the truth. The deficiency is in the field of "credit" in the wider sense in which that word was used in the earlier part of this chapter.

Thus, the commonplace statement that enterprise is founded upon credit takes on a profounder quality of truth when "credit" is understood to cover wages. Credit must be made to flow into the community's life at both ends as it were. The volume of credit available for use in the community has always been subject to control by limitation (ultimately) at the top. But another kind of control is wanted at the other end of the credit structure as well.

When credit is utilised at the top in order to initiate supply, the resulting production represents a money-value by virtue of the function which money has fulfilled in bringing the production into existence. And "credit," in the sense of wages, must also be appropriately distributed at the bottom (so securing an appropriate wages-structure throughout), in order that the total production may be sufficiently balanced by the community's whole purchasing power, which is the same money fulfilling its complementary function of expressing each individual's effective demand.

While the policy of the Central Bank in determining the maximum volume of credit to be made available for industry and commerce, together with the force of competition in tending to limit the profits arising from the use of such credit to a normal figure, have together constituted a control of industry at the top, on the side of supply, that control is not by itself sufficient for economic health. There must be also some regulation at the bottom, the objective of such regulation being simply to ensure that effective demand does not unduly lag behind the potentialities of supply.

Such seems to be the regulation which industry under modern conditions requires.

Because wage rates are at present entirely unregulated there results inevitably not only an extreme degree of inequity between one man and another, but also a cumulative disorder of the economic body itself. The moral sense of the community is aroused in regard to the inequity; but, quite apart from that aspect, the analysis shows that, from the sheer logic of the case, wages require to be constantly corrected in the manner indicated if the community's economic health is not to be constantly impaired.

It has already been observed that the processes of international trade tend to bring about a continual pressure to lower costs, *i.e.* ultimately wages, in the "unsheltered" industries of each country.

If we did not, by some means or other, restrain this downward tendency in wages, we would be offering no resistance to an automatic pressure upon all wages tending to force them lower and lower. On the other hand, if the restraints which we put upon the process are hazardous and ill-regulated without any relation to well-founded principles, the internal balance required for full employment is never achieved or likely to be approached.

At present we do put restraints on the industrial process hazardously here and there; with consequences, not unnaturally, analogous to the results of subjecting a locomotive engine to irregular impulses in any and every point of its mechanism. These will first slow down the engine's progress and will ultimately threaten to stop it altogether.

The only healthy way of imposing the necessary restraints upon the tendency for wages to be pressed lower and lower appears to be to regulate the lowest wages themselves at an appropriate level.[1] By virtue of the "lateral balance" of wages within the country which is thus secured, the home trade is enabled to attain its maximum capacity. And the "appropriate level" of the common minimum wage is such that, while serving as the basis of a wage-structure in the

[1] Subject to some minor variations for reasons already indicated; but a common level for the purposes of argument.

vertical channel of industry which will be generally acceptable to the community (by virtue of its offering no detriment to the needs and claims of individuals), it will at the same time enable the country as a whole to maintain an "adequate" competitive power in world markets, and so to attain within its own boundaries a completely "balanced production," which means maximum employment.

When it is considered that the defect of ill-balanced wage rates is operating to-day all the time and has been operating persistently, and with an increasing intensity of effect as invention and the facilities of money-credit have increased, it is no longer surprising that the world's economic disorder is acute.

The more rapid the progress of industrial improvement in method and invention, as applied to the production of articles which are already in general demand or can become articles of general demand, the more damaging is the result of this inherent defect in our industrial life. In so far as actually new articles are invented, representing new individual desires and satisfactions, the damage is mitigated by the demand for labour in the new production; but that by itself does not improve the standard of living, nor can it absorb more than a small proportion of the unemployed.

Unless this defect of ill-balanced wage rates is dealt with, (*i.e.* ill balance of wages in relation to one another and of wages in relation to productive capacity), nothing else can be fully sufficient to correct the economic disorder. No measures directed, for example, to monetary inflation, or "reflation," or the "remonetisation of silver," can *by themselves* hold out any promise of real and permanent improvement in industry as a whole. No action confined solely to financial factors with the direct object of improving the prospect of profit, whether at home (on the assumption that it will attract capital investment towards absorbing the unemployed) or abroad among the sellers of raw commodities (on the assumption that it will increase the foreign demand for our manufactured goods) can be enough, if it does not secure that the increased profits are based on an

increased effective demand so located that the tendency will be towards a more balanced production over all.

And the analysis has shown that, subject still to the consideration of the adjustments necessary in relation to the country's external situation, there should be no impediment in practice to the application of the principles of wage-adjustment indicated. On the contrary, by virtue of such wage-adjustments, so long as they are carried out gradually, there would be added to our economic life an additional factor making for stability which has never existed before.

It will be noted, moreover, that the wage-regulation shown to be necessary for achieving a situation of balanced production, which means maximum employment, is at the same time the means of enabling the country to attain its maximum *potentiality* of production. In other words, the measures required to keep employment at the maximum are at the same time the means of achieving a maximum welfare for the whole community.

With regard to stability, it is, of course, impossible for the complex industrial machine of the whole world, or of any one community, to run with perfect smoothness. It has been seen that any equilibrium achieved is an unstable equilibrium and can only be continually *restored*, as it were; an equilibrium in industry can hardly be *maintained*, in the strict sense of that word. Wage-adjustments in accordance with the principles indicated would bring about greater stability in the sense that they would serve continually to counteract the constantly recurring tendencies towards disequilibrium and disorder which inevitably occur otherwise.[1]

The regulation of minimum wages for the country as a whole in the manner indicated would, in effect, constitute the " governor " which our industrial machine so obviously lacks.

[1] The problems of employment incidental to the seasonal nature of certain trades, *e.g.* building, would remain. But this purely *seasonal* instability is a minor problem.

CHAPTER V

ACROSS NATIONAL BOUNDARIES

I. The Influence of Money. The practical significance of money-exchange—International debts—The unemployment that arises from international competition—The connection between international debts and the present world-disorder—International loans: their objective and their results.

II. International Trade. The economic gain from imports—Balanced wages and foreign competition—" Protection "—Export trade.

It has been shown that the balanced production which is necessary to achieve maximum employment in any country requires the maintenance of balanced wages (in a double sense) internally, and that this is the *first essential.* There must be a balance of wages among themselves and also a balance between wages as a whole and the country's capacity of production.

The practical application of this principle of twofold balance requires nothing more than to lay down a minimum wage for the whole of the country's industry and to increase that minimum from time to time as the " productive capacity " of the country increases.

The means of determining when the minimum wage is to be increased has not as yet been indicated; but, as regards the general principle of maintaining balanced wages in the twofold sense indicated, it has been shown not only that the application of that principle by some means or other is necessary, but also that, subject still to the consideration of what adjustments may be required by the country's economic relations with other countries, the practical application of the principle would offer no impediment to the ordinary operations of industry and commerce. On the contrary, it would give rise to general prosperity, provided only that the increases in the minimum wage are made gradually.

The adjustments which may have to be made in respect of the country's external relations are to be the subject of this chapter.

While these adjustments must be directed towards securing that the country's capacity to compete "adequately" in world trade as a whole (including trade in the home-country) is not impaired, it was shown in Chapter II that these adjustments must be superimposed upon a situation of internal balance. An internal balance is the first necessity, because the maintenance of internal balance is essential to secure the healthy continuance of home trade itself.

Moreover, it has been seen that the maintenance of this internal balance carries two further advantages, besides fulfilling the primary requirement of ensuring the healthy continuance of home trade and so the maintenance of a maximum employment in that respect. For one thing, the problem of making the necessary adjustments in respect of the country's external relations is made easier; and for another thing the home trade itself, besides being maintained "up to capacity" in the sense of achieving the maximum employment, is enabled to expand towards the attainment of its maximum *potential* capacity, and so towards an increased welfare for all. The attainment of maximum potential capacity is impossible without internal balance.

An investigation of the country's external economic relations must cover transfers of money as well as activities of trade. These two subjects are not, in any real sense, separate from one another, but they call for separate consideration to some extent. Money will be considered first because its movement can be very easy and very rapid, and because, in spite of its being essentially only the medium for the exchange of goods and services, money transferred across national boundaries may sometimes greatly influence trade itself.

I. The Influence of Money

It is not necessary to embark on a full discussion of the theory of foreign exchanges; reference may be made to the text-books. For the purposes of this discussion, only certain aspects of the foreign exchanges need to be considered.

The Practical Significance of Money-Exchange.

The necessity of carrying out a multitude of international money transactions has created the need for certain classes of commercial men who " deal in " money. The result of this is that money, besides being a medium for facilitating the exchange of goods, etc. for one another, also partakes of the nature of a commodity that is bought and sold.

But although each country's money is thus dealt with as a commodity, the exchanges of each country's money for the money of other countries which are thus carried out in the market do nevertheless retain their essential character of a medium representing the transactions of international trade in goods and services, just as within the boundaries of each country the internal money is a medium for carrying out the exchanges of goods and services for one another at home.

For this reason, if the " outwards " and " inwards " trade of each country approximately balance one another, the exchange rates of the countries concerned will in normal circumstances remain fairly steady.[1]

And the same situation can be described the other way about. It can be said that when rates of exchange remain stable under normal conditions (*i.e.* in the absence of any outside interference, *e.g.* by manipulating the value of the currency unit or impeding the ordinary transactions of money-exchange), this represents a situation in which the " outwards " and the " inwards " trade of each country concerned are approximately in balance with one another, and (because money, the commodity, can be bought and sold in advance) that they are expected to remain so.

In the money market all transfers of money between one country and others tend to become balanced of themselves; for in accordance with the ordinary operations of market commerce the effective demand for each kind of money becomes equated to the offered supply of that money by

[1] The seasonal movements in certain trades are no impediment to steady rates of exchange throughout the year. In normal circumstances the rates of exchange are kept steady as the result of the combined operations of the merchants in commodities and the merchants in money in the ordinary course (*e.g.* through discounting of bills, etc.).

virtue of variations in the " price " itself. And this is true in all circumstances, whatever be the " absolute value " of each country's monetary unit.

How does this work in practice?

Under the normal operations of a fixed monetary standard in each country, say in gold (*i.e.* when the value of each country's unit of currency is definitely fixed as a specified weight of gold of a specified degree of fineness), if the equation of demand and supply in the money market would by itself carry the exchange value of the country's money away from its normal " par " value beyond certain narrow limits in either direction (called the " gold points "), it will become profitable to buy gold for transfer from one country to another rather than to continue pressing the demand for (or supply of) currency. In other words, when there is a fixed monetary standard in each country in terms of gold, the exchange rate will be left at or about par, and gold will pass from one country to the other to the extent of the " excess tendency " one way or the other.

Without a fixed monetary standard in each country there is no such " automatic " restriction on the exchange value of a country's currency. In such conditions, and in the absence of any " artificial " restriction on rates of exchange, the exchange value of a country's currency will vary from day to day, indeed from moment to moment, according to the changes which occur in the relationship between the demand and the supply of the country's currency in the market; and accordingly gold might not be transferred across national boundaries at all. In some circumstances, nevertheless, a country's government might decide to make certain transfers of gold, if possible, in order to serve the same purpose of keeping the exchange value of the country's currency as far as possible stable, for the sake of stable trade.

What is the effectual significance of this physical transfer of gold? It is that in the receiving country the additional gold amounts to a *possibility* of expanding the credit supply internally. (It was seen that credit supply, in this country at any rate, is related, so far as its maximum limit is con-

cerned, to the stock of gold held by the Central Bank.[1]) Correspondingly the country transmitting the gold approaches the *possibility* of a necessary contraction in its internal credit supply. It is when these possibilities are translated into fact that the transfer of gold has an effect on trade.

If these possibilities are not translated into fact the transfer of gold has no direct influence whatsoever on the conditions of actual trade in goods and services.

In so far as the possibilities *are* translated into fact the direct result is this. Prices tend to rise in the receiving country and tend to fall in the paying country. The country with relatively expanded credit is then likely to find that its home market tends to become invaded by the products of the other country or other countries, and its own power of competing successfully in markets outside its boundaries is also diminished for similar reason.[2]

In this way the free market in money exchange always brings about a *tendency* towards a balance between the "outwards" and "inwards" trade of each country. The tendency may take time to proceed through its lengthy course, but the tendency persists nevertheless.

This constant tendency towards an "outwards" and "inwards" balance of trade is only another way of saying that **each country's contribution to the external world-economy as a whole tends always towards an equality with the material benefits which the external world-economy**

[1] If a country is not on a gold, or any other definite, standard, and if the country's credit supply is expanded without any limit of relationship to the country's stock of gold (or other standard article), a special situation arises which brings its own peculiar dangers. For example, a depreciation of the currency may ensue, with its consequent danger of widespread economic catastrophe such as the post-war world has already experienced in some countries.

[2] As to the nature of the process, we cannot do better than quote a brief description from Mr. Keynes' book, *A Tract on Monetary Reform*, p. 159 :—"We are familiar with the causal chain along which the pre-war method reached its result. If gold flowed out of the country's central reserves, this modified discount policy and the creation of credit, thus affecting the demand for, and hence the price of, the class of goods most sensitive to the ease of credit, and gradually, through the price of these goods, spreading its influence to the prices of goods generally, including those which enter into international trade, until at the new level of price foreign goods began to look dear at home and domestic goods cheap abroad, and the . . . balance was redressed. But this process might take months to work out."

renders back to it. (The equality is in the measure of relative values within the country itself.)

It has been seen that this constant tendency of international trade towards a situation of "outwards" and "inwards" balance for each country is brought about indirectly by the operations of the money-exchanges.

Thus, although it is primarily international trade which gives rise to money transactions on the exchanges, the money transactions on the exchanges have themselves an indirect effect upon trade.

This has an important practical significance in connection with international debts and international loans.

International Debts.

It will be realised in the first place that the transfer of money from one Government to another is in its essential nature and in its effect precisely the same as a similar transfer from the business community of one country to the business community of another. The paying Government can only transmit the money-credit when it has in effect extracted the equivalent value from its business community (unless, of course, its budget is not a balanced budget —a contingency which creates special difficulties and which is not within the scope of this discussion); and, when the value is so extracted, the transfer of the money-credit takes its place among all the other money-transactions of the business community between one country and another which make up the complete picture of money transactions in the market for foreign exchange. There is thus no actual difference in results in the paying country, whether the transfer of money-credit is from the Government or from some area of the business community. And similarly there is no difference in results in the country receiving the money-credit.

It is clear also that the creation of debt between one country and another, however the debt may originate, has always the same practical significance. Whether it be a loan from Government or from private individuals or whether it

be the exaction of a tribute from one country to another makes no difference. It is always *in effect* an attempt on the part of one country to obtain from the external world-economy more than it did before the creation of the debt.

But it was seen above that through the ordinary processes of international trade and commerce, and as an indirect result of the international money transactions themselves, there is always a tendency for each country's contribution of material goods and services to the external world-economy as a whole to equal the material benefits which it receives from the external world-economy in return.

First, then, as to the exaction of tribute from one country to another; what is the position? On the one hand, an attempt to obtain increased benefits from the external world-economy; on the other hand, a constantly operating tendency in the processes of world trade and international exchange towards securing that the benefits which a country receives from the external world-economy shall be no more than its own contribution thereto. It follows that any such attempt on the part of one country to obtain increased benefits from the world-economy tends to be frustrated by the ordinary operations of commerce, which are always tending to restore balance between each country's "outwards" and "inwards" trade.

It is important, here again, to emphasise that we can speak only of a tendency; for industry is not static, and the equation of a country's contribution to the external world-economy with the same country's receipt of benefits therefrom is not a rigid equation in the sense that the two factors are precisely equal at any given moment. To describe the position correctly it can only be said that there is all the while a tendency for them to become equalised.[1] It can be

[1] Even under the unimpeded operation of the international gold standard the balance of trade would only emerge as the result of a more or less tardy process.

In the case of a country that has abandoned the gold standard, although international indebtedness is still balanced day by day through fluctuations in the rates of exchange, it is conceivable that the tendency towards a balance of trade may not be allowed to work itself out for a very considerable time. For instance, when a country has abandoned the gold standard there are possibilities that the value of its unit of currency may be affected by an internal monetary policy of inflation. In such event the long-

said truly, therefore, without any qualification that the only way in which a country can ultimately succeed in an attempt to take from the world-economy goods and services of greater value than it is *already* contributing is to proceed to increase its contribution as soon as it may.

Now there are only two ways in which a country can contribute to the world-economy. One is to lend money-credit to other countries; the other is to supply goods or services. And so if a country is to increase its contribution it must do so in either or both of these two ways. But, if a country has an " unduly " expanded credit (*i.e.* " unduly " in relation to the conditions of world-trade in which the country is a competitor), the possibilities of increasing the country's contribution in the supply of goods and services are limited; for by reason of its increased prices internally it cannot contribute to the external world-economy goods and services of a kind which other countries are prepared to contribute more cheaply (in other words, by claiming less from the world-economy in return). It follows, therefore, that in such circumstances an increased contribution in goods and services must involve a diversion of the country's labour to other occupations.

If these consequences are not appreciated, and if the country with an " unduly " expanded credit does not realise that to avoid an accentuation of economic disorder and unemployment within its own boundaries it *must* either lend money-credit to other countries or divert a great deal of its labour to other occupations, the emergence of further unemployment over and above what may already exist by virtue of its own internal disequilibrium is inevitable.

Even assuming, however, that the consequences of an

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term tendencious movement in the value of the country's unit of currency in terms of other units (*i.e.* the tendency of movement apart from day-to-day or seasonal fluctuations) would reflect monetary policy as well as the net difference of actual trade indebtedness outwards and inwards; and if a country should in such circumstances choose to place impediments on the free flow of international credit or of international trade itself, a true balance of trade with other countries may be deferred almost indefinitely. The impediments in exchange would, in fact, prevent the initiation of the process towards balance. The country might, however, approach more and more to a complete isolation from the advantages of international trade altogether.

"unduly" expanded credit are fully appreciated, what is the position? The lending of money-credit to foreign countries cannot be forced. In practice such lending depends on political as well as industrial factors; and loans may not even be wanted. In any event, if the volume of lending to foreign countries is insufficient, the other alternative of a considerable diversion of labour to other occupations has then to be faced if internal disorder is to be avoided.

It is thus seen, in particular, that large inter-governmental debts cannot be effectually paid without bringing about certain consequences which may be awkward. The creditor countries may be unwilling to adopt the only measures adequate to meet those consequences; and then, faced with an ever-growing problem of unemployment, the creditor countries tend to yield to the temptation of adopting measures such as embargoes on imports, protective tariffs, impediments to free international exchange and so on, which *appear* to be needed because they seem to promise that the successful foreign competition in the home market can thereby be checked.

But such measures are bound to fail of their purpose. For, what happens?

The countries which have been contributing to the world-economy for the smallest reward in return are by these restrictive measures prevented from continuing to do so; and, their total contribution to the external world-economy being thus reduced, the benefits they receive from the world-economy in return also become reduced correspondingly; and so the whole process, with its cumulative reactions, tends to bring about a progressive reduction in the sum-total of world trade across national boundaries.

In a general way the position can be seen to be as follows. The measures of embargo, tariffs, impediments to free exchange, and so on, delay the full effect of those ordinary operations of industry themselves which tend to bring about balance between a country's "outwards" and "inwards" trade; but although the tendencies towards balance may thus be delayed to some extent, they are not to be denied altogether, so long as any international exchange and inter-

national trade exists at all; and so the only result of these measures of "impediment," if they are persisted in, is to reduce the volume of international trade itself.

In this way the measures adopted primarily to check the growth of unemployment result merely in creating still more unemployment in the country which introduced them.

This seems to be a fair description of the more recent processes which have led to the world-trade situation of 1933.

And the matter can be usefully pursued further. Not only do the restrictive measures which have been mentioned necessarily fail in practice for the reasons indicated, but they can now be seen to be founded on a misapprehension of the real position in regard to international competition.

The Unemployment that arises from International Competition.

The measures referred to are directed against competition from foreign countries because unemployment arises directly and perceptibly therefrom. But although competition from foreign countries is thus identifiable in some circumstances as the immediately predisposing factor which gives rise to a certain amount of unemployment, it can now be seen that such competition is not the cause of unemployment in any fundamental sense. It has been shown that although it is primarily international trade which gives rise to international money transactions, these money transactions themselves have an indirect influence on trade. It is through this influence that there results the tendency towards a balance between the "outwards" and "inwards" trade of each country, and the emergence of unemployment directly from successful foreign competition is essentially part of the actual process which serves to bring about this inevitable tendency towards balance.

It is, therefore, only a part of the truth to say that international competition is a cause of unemployment—even when unemployment emerges perceptibly by reason of such competition. It is more correct to say that **international competition is the means of indicating, by virtue of the emergence of unemployment in certain circumstances, that**

something is wrong in the economic condition of the country concerned in relation to other countries. International competition is not the real source of unemployment.

In other words, *a certain amount* of unemployment, emerging through the processes of international trade and commerce, is really the symptom of a more fundamental disorder which itself requires to be corrected.

If the problem of each country's necessary adjustment to external conditions is regarded from the point of view that the various countries as separate industrial groups are making contributions to and obtaining corresponding benefits from the world-economy as a whole, then the fundamental disorder referred to can be seen clearly for what it essentially is. The disorder is simply that the general level of the money-wages per head in the country is out of balance with the rest of the world.[1]

There is no reason why the revelation of this maladjustment in relation to the rest of the world should not be put right without any impediment to real welfare. The trouble is that in the present circumstances of a chaotic unbalance of industry internally in each country, the repercussions of any measures which *appear* to suffice for correcting the superficial symptom of unemployment in a few isolated industries are so complex as almost to defy a reasonable solution in the circumstances as they are.

If, on the other hand, a country maintained balanced wages internally, the problem would be simplified. For the tendencies brought about by international competition are, in effect, the means of indicating whether the general level of money-wages within the country is out of balance with the rest of the world; and if internal balance is maintained the necessary adjustment can be made without fear of awkward repercussions.

Thus, by observing the results of international competition upon its internal situation, any country which maintained

[1] Here again, as in the case of industrial groups within one country, "balance" does not mean equality. The true position of the wage-level in a country for securing "balance" between one country and the rest of the world depends on the country's power, measured in terms of its natural resources and industrial efficiency, of contributing to the world-economy as a whole.

balanced wages would be enabled to keep its internal balance adjusted at an appropriate level in relation to the economic conditions prevailing outside the country, whatever those conditions may be. In other words, the indications given by the results of international competition should enable each country to achieve an internal balance of wages at such a level as secures the nearest practicable approach to a completely balanced production, which means full employment within the country.

It seems clear that by the achievement and maintenance of " balanced wages " internally in any country, which was shown to be the primary requisite in any case for keeping unemployment at the minimum, the superimposed problems arising from international trade would be more clearly revealed in their true nature, and their solution simplified.

The Connection between International Debts and the present World-Disorder.

To revert to the subject of international debt, it can now be seen that it would not be impossible for a country to obtain from the external world-economy " more than it did before the creation of the debt," provided that the necessity for the diversion of labour to other occupations were appreciated and the consequent serious human disturbances were admissible in practice. Wages must be maintained in balance all the while, however.

If the countries in the world of to-day were prepared to face all these necessities, it is safe to say that there would be no actual impossibility in the payment of war debts and reparations; the payment would simply take the form of a surplus in the debtor country of exports over imports and a reverse position in the creditor country. And the result would in due course be observable in this way as a payment of " tribute " from one country or countries at a lower general standard of living to another country or countries at a higher general standard.

If any country wanted such a situation in this twentieth century it would apparently be possible to bring it about, but only at the cost of a serious disturbance to its industry

and drastic changes for its people; and, of course, as the time approached for the debt payments to be finally completed another serious disturbance of industry and diversion of labour would have to take place again to meet the new conditions required for a "balanced production" in the changed situation when the payments ceased.

In brief, it is thus clear that the trouble which has arisen from heavy intergovernmental payments is essentially only an accentuation of a disorder which existed and exists independently of those payments. The practical aspect of the trouble is, however, endlessly complicated by the fact that no country as yet takes any measures to secure balanced wages internally. And yet without such measures the problem of unemployment cannot be solved in any case.

It will therefore be realised that a reduction in the volume of existing intergovernmental debts will bring benefit to the world's economic situation not because the debts themselves are fundamental causes of disorder, but only because their reduction will remove *to some extent* the occasion for continuing the extreme policies of impediment to international trade which have been adopted over a wide area of the world in an attempt to relieve each country's domestic unemployment; policies which, so far from being effectual in that direction, have only served to accentuate the economic disorder in the world as a whole and consequently in each country in particular.

The simple truth is that the fundamental ill-adjustments and disequilibrium which are discussed in this book existed in all countries internally before the introduction of war debts and reparations. If the burdens of international indebtedness had not been initially so heavy, their adverse effects might have tended to become hidden in the more fundamental economic disorder which existed, and still exists, independently of them. The war debts and reparations have served to aggravate the disorder. Because they were so large they have given rise to a disturbance of economic balance in the post-war world more extensive and dramatic than would otherwise have been possible; but the debts themselves are not causes of disorder in any fundamental sense.

International Loans : their Objective and their Results.

As the effect of a money payment from one country to another is essentially the same whether it be in the form of a debt payment or a loan, some further consideration must be given to the question of loans from one country to another in the ordinary course of commerce.

The essential feature of a loan in the international field is that it involves the borrowing country in a liability of repayments of interest and capital.

Whether the lending country contemplates that these returning payments should be in the form of goods (or services) or gold, certain important considerations arise for both countries during the whole period pending final liquidation of the loan. The same considerations arise whether the loan be from one government to another or from private persons in one country to the government of another or from private persons in one country to private persons of another.

It will be realised that such a loan will not result in any economic benefit " in the net " unless the loan is utilised to increase production and consumption of the world's goods as a whole or to facilitate their exchange. Unless the loan is so utilised it is merely an additional disturbing factor in the world's monetary economy. As already noted in a previous chapter, money-credit can only bring benefit when it is employed to meet in the ultimate stage an effective demand for goods or services; and this can only occur without disturbance of balance if an effective demand is created in appropriate quarters so that balance is maintained.

And as the primary need of an internally balanced production in the borrowing country does not essentially require foreign credit, the utility of the loan can only accrue in an increased value of the total production or an increased facility in the " exchange of goods " for the two countries *taken together.* But such a situation must tend to some extent to alter the industrial balance between each country and the rest of the world. And it has to be realised, therefore, that international money loans, whether between governments or between private persons, will themselves

sometimes call for further diversions of labour (and also, possibly, adjustments of wages) in order to meet each country's new "external" balance as well as to maintain internal balance in each case.

When, for example, one country gives credit to another (possibly with the immediate purpose of extending its markets for manufactured goods) it is a matter of concern to the lending country, and possibly to other countries as well, in what manner the credit is going to be liquidated. It may be, for example, that the borrowing country will seek to sell agricultural produce in competition with the agricultural industry of even the lending country! [1]

Such considerations do not imply that international loans should cease, nor do they mean that it becomes undesirable or impossible for countries to accumulate wealth abroad as well as within their own boundaries; for a loan of money-credit is an *additional* contribution to the world-economy provided that it is put to appropriate use in the sense described above; and in such event the lending country can secure a benefit as well as the borrowing country, and without any detriment to the economic position elsewhere.[2] But such considerations serve to illustrate from the different point of view of money-credit what was observed in the discussion of stability in Chapter III; namely, that in this closely-knit world of to-day every country is concerned in

[1] In particular, if a loan is utilised to buy articles (such as war material) which are consumed away entirely, any economic utility that the loan might have had is lost once and for all, and the result of the loan is effectually the same as the exaction of a tribute from one country by another, which was discussed above.

[2] From the fact that each country's benefit from the world-economy as a whole tends always towards an equality with its own contribution thereto, it will be realised that it is hardly correct to speak of any country as having a "favourable" or an "adverse" trade balance. A situation which is described as a "favourable" trade balance, *if it is persistent*, simply means that the country is able to lend money-credit for industry abroad and so to accumulate wealth in foreign countries; and a situation described as an "adverse" trade balance, if it is persistent, must mean that the country is borrowing money-credit from other countries.

It is because wages are not balanced and countries have not therefore a "balanced production" within their own boundaries that international competition often tends to be destructive. The potentialities of world-enrichment from international loans are for this reason seldom fulfilled in present circumstances. They *could* be fulfilled, and with much less lending, if balanced wages were maintained in all countries.

the achievement and the maintenance of a balanced production internally in other countries as well as within its own boundaries. And something else which was also observed in Chapter III will also be recalled here; namely, that if internal balance (*i.e.* balanced wages in the twofold sense) is maintained in all countries, rates of exchange will themselves tend to approach a stable relationship through the ordinary processes of international commerce, whatever be the unit of currency in each case.

It was seen in the course of the discussion on international competition that any country should be able to attain to a high degree of employment within its own boundaries, whatever be the position in the rest of the world, provided that steps are taken to maintain a balance of wages internally. It can now be seen that even when these necessary steps are taken to maintain the country's maximum employment, the material welfare attainable within the country will not be as great as it could be if all other countries also maintained internal balance.

II. International Trade

And now it remains to investigate the adjustments which have to be superimposed upon the conditions of internal balance (*i.e.* balanced wages) in order that a country shall maintain an adequate competitive capacity in world trade.

It will be realised that the question is twofold. It covers—

(i) the capacity to maintain home trade, as far as may be possible and suitable, against foreign competition in the home market, and

(ii) the capacity to sell home-produced goods abroad, to the extent which may be necessary in order to enable the country to import goods in exchange.

The Economic Gain from Imports.

In regard to the position at home, it is to be noted in the first place that if foreign competition is successful in the home

market, the fact that it is so reveals the possibility of an economic gain to the community.

This does not perhaps need any illustration, but its significance possibly needs emphasising; and an elementary illustration will suffice.

Let it be assumed that an island, hitherto unknown, is discovered with a simple community thriving upon it; that the members of the island community live under the autocratic government of a chief and are enjoying a balanced production of three articles; and that these three articles, A, B and C, suffice for their needs. And let it also be assumed, for the sake of simplicity, that the whole cost of A, B and C is in the labour.

On the discovery of this island community by a traveller who is in possession of a large quantity of pretty beads of European manufacture the traveller may approach the chief of the island and say: "I will take some of your articles A in exchange for these beads of a kind which you have never seen before and which you and your people like very much. Your people, who have hitherto spent great effort in searching for rough stones and polishing them for the adornment of your temple, or community house, will not need to spend so much effort on the production of the articles A which I am prepared to take for a considerable quantity of beads. And the beads are quite as suitable as the polished stones for their purpose."

If the exchange is agreed upon, and the necessary labour is diverted from the collecting and polishing of beads to the making of the articles A required by the foreigner in exchange, the islanders will secure on the whole an economic gain, for they can now, with less labour than before, secure all the articles A, B and C which they require, as well as an adequate quantity of the beads suitable for replacing their polished stones.

Now assume that at a later stage the foreigner comes again to the island; but this time, instead of offering beads, he wants to dispose of articles manufactured in Europe which are of the same kind as the islanders' article B. He will not, of course, offer his articles B unless he can arrange to take

something from the islanders in exchange. Say that he wants still more of article A.

Under a system of direct exchange by barter the foreigner will not be able to do any business with the islanders on these lines unless the islanders' production of the desired number of article A calls for a smaller expenditure in labour-time than their production of the quantity of B proffered by the foreigner in exchange. But in that event business can proceed to the island's further economic advantage; for seeing that, as in the previous illustration, labour which has hitherto been spent on making article B can now be directed to the easier task of producing the equivalent exchange quantity of A, the result of this further transaction, assuming that a new balance of production can be achieved, will again be that each of the islanders can enjoy more leisure or, by working as hard as previously, can enjoy more "riches."

So much is obvious in general. But now consider the position in a civilised community where money intervenes as a medium of exchange.

The difference is simply this; that the man who sells an article of foreign manufacture is not necessarily concerned with the buying of any other article in exchange. The man is merely the agent of a foreign manufacturer for the purpose of selling the foreign article; and nothing more.

If the local-money price of the foreigner's article B compares favourably with that of the similar local product, some commercial man will undertake to sell the foreigner's articles B locally and credit the foreigner with the value of them.[1] It is not necessary to postulate anything evil or vicious in the man himself that he should undertake to do this! Indeed, so long as rates of exchange are stable, the cheaper price of the foreigner's article B is prima facie evidence that a benefit can accrue to the whole community by this business, if only it is possible to bring about the appropriate diversion of available labour to other activities, which, as seen from

[1] The alternative of a credit to the foreigner or a payment in gold does not affect the argument. Between civilised communities the payments are nominally carried out by credits adjusted in due course through the foreign exchanges.

the simple illustration above, is required in order to spread the benefit among all the members of the community.

But what happens in actual practice? The increased leisure for all which is thus rendered possible, as the simple illustration showed, and which represents theoretically the economic gain to the community as a whole, takes the form of unemployment for certain individuals. And this unemployment with its threat of possible disorder cumulatively spreading further and further, perhaps even beyond the national boundaries the whole world over, emerges as the direct result of the benefits which are made possible by international trade.

Balanced Wages and Foreign Competition.

It was noted above that, whatever may be the detailed circumstances of a country's trade, its "outwards" and "inwards" trade inevitably tend towards a balance with one another.

But while this tendency towards balance between the "outwards" and "inwards" trade of each country is operating all the time, our present habit of dealing with the problems of each industrial group in isolation from the rest allows the freest possible play to the forces of international competition in those industries which are able to cross the national boundaries (*i.e.* the "unsheltered" industries). And what is the result? Competition forces reduction of costs. Wages may be the last item of costs to be reduced in the competition, but they must suffer in the last resort if the competitive reduction of cost is to be pursued; and so the paradox emerges.

Industry's power of production is ever increasing, and the facilities for carrying the world's riches beyond national boundaries are always expanding. But these very powers, instead of enriching the world, themselves bring about a tendency more and more to depress the wages and conditions in the "unsheltered" industries, and so, of course, by reason of the mutual interdependence of all industrial activity, to result in depression in each country even for the "sheltered" industries as well.

It has already been noted that alterations of wages in isolated industries, *i.e.* without regard to a maintenance of balance over all, are conducive to the persistence of unemployment, and that for this reason a balance of wages throughout the community must always be the first requisite for maximum employment. It was also noticed in the earlier part of this chapter that the maintenance of balanced wages will simplify the problems arising from international trade.

There is yet another consideration in respect of international trade which makes it a matter of particular importance for a country to maintain balanced wages.

The capacity of a country to compete in all markets, in so far as wages-costs play a deciding part, may be said to depend upon the country's "general wage-level." We can conceive of a "general wage-level" in this sense as either the compound resultant, as it were, of wages in disequilibrium, or as the simple resultant of wages in balance.

But it will be realised that any internal disorder is effectually a burden on the industrial efficiency of the country as a whole (cf. unemployment insurance); and just as the home trade of the country as a whole attains its maximum prosperity only when the wages of the country are in balance, so, because the volume of home trade is itself a maximum in those circumstances, the country's capacity to compete against foreign competition is also greater when wages are in balance than when they are not. (The actual degree of the country's capacity to compete is still, of course, dependent on the level at which the internal balance of wages is constructed.)

If foreign competition were successful in the home market in spite of wages being in balance, one of two things would be indicated. Either (i) the level at which the balance of wages is constructed is unduly high, or (ii) the particular industry concerned is relatively uneconomic in the world conditions existing at the time.

In view of the possibility of (i), it might be said that the situation demanded a reduction of the minimum wage. Any such reduction should, in accordance with the first principle

of wage-regulation, be applied throughout the whole of the country so as to maintain internal balance. But, in regard to wage-reduction in the circumstances presupposed, it is relevant to recall certain features which emerged from the preceding discussion.

It was established that, given a balance of wages among themselves, an upward movement in the lowest wages becomes necessary in course of time to match the increases in the country's productive capacity which arise inevitably as time goes on. Thus, assuming that wages are in balance among themselves, if the upward movements in wages which have already been made in the past were made sufficiently gradually (and this was shown to be necessary and important for other reasons also), a reduction in the general level of wages is not likely to be the remedy for successful foreign competition in the home market; or alternatively, if it were, the further improvements which will inevitably occur in the country's productive capacity as time goes on are likely at an early date to render the reduction unnecessary.

As for the second possible indication from successful foreign competition in the home market, this must signify either that the country's natural resources are relatively deficient or that the industry concerned is relatively inefficient.

"*Protection.*"

Speaking idealistically and theoretically, the benefits of international trade would be most fully realised when each country contributed to the world-economy what it was naturally most fitted to contribute; and no country would then have any need to apply any measures of protection to any of its production. In practice, however, this is not at all likely to occur in the near future, even should it be acceptable as an ideal (which may be doubtful for other than economic reasons); and each country may be faced with the necessity of applying some measures of protection for certain of its products in the home market.

The merits of so doing in any particular case are not within the scope of the present discussion; but it is important to

notice, in regard to any protective measures thus considered to be necessary, one vital feature which emerges from the argument of the preceding chapters.

It is this: that the "protection" commonly spoken of is not by itself sufficient.

"Protection" is devised to secure that the profits of the home producer are adequate to ensure the continuance of his industry. The argument for this protection in those trades where the circumstances call for it is, quite logically, that only by such means can we protect the employment of the labour. It is clear that the protection of profits is not the primary concern. The real purpose is always to safeguard the volume of employment.

But it has been established in the preceding discussion that employment is never adequately safeguarded even in the most favourable circumstances (*i.e.* in a self-sufficient community) unless wages are balanced, in the twofold sense indicated.

Thus, a policy of protection against foreign competition in the home market, if it is to be effectual over-all and to leave no consequential disorder elsewhere within the country, must involve not merely protection of profits alone, but protection of profits *at the same time as the maintenance of internally balanced wages.* In other words, when protection of any industrial product in the home market is necessary, then, whatever be the method of protection adopted (and protection can be of more than one kind), **the degree of protection to be applied must be assessed in the light of wage-rates previously determined in accordance with the principle of balanced wages throughout the country.** Balanced wages come first, and the measure of any protection required thereafter must be determined by the necessity of maintaining that balance as well as preserving the normal degree of profit.

Broadly speaking, as to the products for which protection in the home market is required, it can be said that from the point of view of the community as a whole, provided that the necessary steps are taken to achieve and maintain balanced wages internally as far as possible, the need for

protective measures will arise only in the following circumstances:

Either because the maintenance of particular industries in the country is dictated by considerations of general policy, *e.g.* agriculture, the production of certain scientific instruments or certain chemical products, etc.;

or because the success of foreign competition is due to subventions in aid of the foreign industry which are of an uneconomic nature.[1]

It will be seen that the question of whether "protection" should be given or not to any product of industry has no direct bearing on the regulation of wage-rates. Wage-regulation is itself the first necessity for the maintenance of maximum employment; and, where protection is necessary for any reason, then, whatever be the method of protection adopted, the *degree* of protection to be applied must be determined in the light of the situation created by the necessity of securing and maintaining balanced wages throughout the country.

Export Trade.

With regard to the second general question involved in international trade, namely, the attainment of an adequate competitive capacity in exports in order to secure imports in exchange, a country cannot do more than ensure that its

[1] As regards this, the "dumping" of foreign goods in the home market might at first appear to be altogether desirable in the interests of the home consumer, who thereby gets his goods at a cheaper price. And it *would* be desirable but for one thing. The fact that the success of the foreign competition is due to an uneconomic factor means that the supply of the "dumped" article cannot be relied upon as a stable supply. If it could be relied upon as a stable supply, the country might do well to allow the goods to enter; for a new internal balance making allowance for the entry of the cheap goods from abroad would bring about an improved standard of living. In the circumstances presupposed, however, namely, that the "dumping" is uneconomic, there is always the possibility of a drying-up of the source of supply, and in that case an internal balance that secures full employment in the country and at the same time allows the entry of the "dumped" goods would be liable to be upset at any time. It is always desirable to avoid as far as possible violent disturbances to industrial stability; and so, for this reason and presumably for this reason alone, a prevention of "dumping," in the form of some actual impediment to the entry of the "dumped" goods, may be desired. The only question then arising would be whether an import tax would suffice for the purpose or whether a definite embargo should be imposed against entry of the goods in any circumstances.

exporting industries are as efficient as possible. But for this purpose again it is important to maintain an internal balance of wages. For it will be realised that here again, as in the case of competition in the home market, the cumulative burdens on the price of an article for export, before this price emerges from the many stages of the home-production sequence and from the economic conditions of the country generally, will be lightest when the country's internal wages are balanced; for then the prosperity of internal trade is at the maximum and unemployment is at a minimum.

Some of the special aspects of export trade in a world of disorder will be considered in the next chapter.

CHAPTER VI

CONSTRUCTIVE MEASURES

Basic principles and their practical application—The form of procedure in general—The first steps—"Over-production"—Economic nationalism and internationalism in accord—The legacy of debt—The requirements summarised—A glimpse of the subsequent problem—The special position of Great Britain—The first necessary step in Great Britain and what it involves—Possible objections answered—After the first step has been taken—Conclusion.

The discussion of the general problem is now concluded. It has been carried broadly over the whole field of domestic and external relations in money and trade generally and has dealt with the general considerations relating to wages, prices, profits and credit and all that is comprehended in stability.

It can be said that the "science," as it were, of the whole matter is sufficiently definite, and that the basic principles which should govern the foundations of economic policy are sufficiently clear.

It will be realised, nevertheless, that in practice the appropriate absolute measure of any of the factors that enter into the problem cannot be determined precisely; and the practical measures indicated can serve only to regulate tendencies. That, however, should suffice.

In order to arrive at a practical policy for immediate application to present circumstances it is desirable to recall briefly what the whole analysis reveals.

Basic Principles and their Practical Application.

Inventions and improvements in industrial efficiency serve to make any equilibrium in industry an unstable equilibrium; and, even if a country were not exposed to international competition, modern industry always tends to create a problem of unemployment which cannot be resolved

without a deliberate application of certain corrective measures.

The corrective measures required are such as will maintain as far as possible a balance of wages among themselves and will also bring about appropriately distributed increases of wages as time goes on to balance the increasing productive capacity of the unit of labour. The appropriate distribution of these increases of wages has already been indicated in general terms.

The necessary regulation of wages to fulfil these two requirements can be sufficiently achieved by regulating the lowest wages in each industry.

A balance of wages among themselves enables the home trade itself to reach its maximum capacity. The maintenance of balanced wages in the twofold sense enables the home trade also to attain its maximum *potential* capacity.

But each country's industrial life is exposed to international competition, and the very fact of such competition acts as a stimulus towards an increase of industrial efficiency; and thus when wages are not internally balanced, in other words when industries are allowed to compete across national boundaries as isolated units regardless of the rest of the nation's industrial life, international competition results in a pressure towards a further and further disequilibrium of domestic industry itself.

For these reasons internal balance is not only a necessary part of the remedy for unemployment; it is also the *primary essential.*

It should therefore be each country's first objective to bring about gradually a balance of wages within its own boundaries.

And, because the attainment of that goal may be impeded to some extent if unemployment is not also reduced in other countries, it is in each country's interest that all other countries should adopt similar measures at the same time.

As to this last, it has been seen that, when a country takes the necessary measures to bring about and to maintain an internal balance of wages, the problems of economic adjustment to the external world are more clearly revealed

and can be more simply resolved. In particular, it should be possible to determine the appropriate minimum wage on which the internal balance must be constructed in order to secure a completely "balanced production" (*i.e.* maximum employment) within the country. In theory, therefore, it is not absolutely essential for the solution of a particular country's unemployment that other countries should maintain an internal balance of wages as well as itself. This is, however, very desirable for facilitating the solution of the problem in practice; moreover, it is clearly necessary for securing the maximum real welfare over all.

The chief practical difficulty in adopting the necessary measures arises from the fact that in the field of economics, unlike some of the other sciences, if it be desired to achieve any result by deliberate action in a democratic community, the action must be taken by the representative will of the people as a whole. And the further difficulty enters here that, because each country has an interest in the maintenance of a balanced production in other countries as well as in its own, the people whose representative will has to be expressed in the procedure for appropriate wage-regulation comprise, in effect, all the nations of the world.

The Form of Procedure in General.

In each country the necessary (always gradual) alterations in foundation-wages (or normally, for reasons previously indicated, in the minimum wage applicable to the whole of the country's industry) must be ordered by a central body with an authority for this purpose covering the whole country. This is not the place to discuss fully how the body of persons should be composed whose function it would be to decree when the changes in the minimum wage (etc.) are to take place and what the amount of the change is to be; but it seems clear that the members should be independent of popular vote and they should, of course, be persons who claim by their experience and their ability and character the community's confidence in their suitability for this special task. The principles which would

guide their decisions, however, are clear; and the justification for their decisions would be recognisable from the known facts.

Such a Wages Board would not encroach upon the functions of Parliament; nor would its existence impair the prestige of Parliament, because the operations of the Wages Board would be in a field with which Parliament need not (one might perhaps say should not) be directly concerned. In particular, the decisions of the Wages Board need not prejudice in the slightest degree the Parliamentary function of determining how much of the community's income shall be devoted to Government and social services, etc.

The First Steps.

There are two ways of securing the first objective of a balance of wages. One way is to reduce the minimum wage in the industries where it is highest; the other way is to increase the minimum wage in the industries where it is lowest.

Apart from the fact that the second alternative is likely to be more welcome to the workers in general, that particular policy can be seen to be the only one that is satisfactory for industry as a whole. For it was seen that wages must also be balanced as far as possible with the community's productive capacity. So the other alternative, because it serves to reduce the level of wages in general, does not conform to the second requirement for the approach to balanced wages, namely, that the general level of wages in the country must go on increasing to keep pace with the country's ever-increasing power of production. Indeed, there is in every country much leeway to be made up in that direction. It must be made up gradually, however, so that undue disturbance to industry as a whole may be avoided.

From the discussion in Chapter II we can assert that such a movement of wages gradually towards internal balance at a higher level (by means of increasing the minimum wage in the industries where it is lowest), inasmuch

as it brings about a nearer approach to balanced production within the community, will help to restore the equilibrium of trade which has been upset.

And if the wage-increases thus indicated to be necessary involve the use of a greater volume of currency, the discussion of just such a situation in Chapter III enables us to assert that so long as the wage-movements are directed towards internal balance at not too rapid a pace, the value of the country's unit of currency will not suffer any depreciation in relation to any external standard on that account.

The argument of Chapter III illustrated how an increase in the volume of goods made " available and exchangeable " would permit of an increase in the number of units of currency utilisable in the community without upsetting the " general stability of prices," provided that the increase in " exchangeability " (*i.e.* in effect, the appropriate distribution of the increased purchasing power) took place in balance with the increase in " availability " (*i.e.* in the capacity of production).

On the assumption that industry started from a situation of balanced wages, and therefore balanced production, the appropriate distribution of the increased purchasing power was indicated to be a distribution which gave the maximum share to the lowest-paid workers in each industry.

When wages are not already balanced, and consequently the appropriate distribution of increased purchasing power must in the first place be in the direction of an approach to balance at a higher general level, it is to be expected that the prices of *certain articles* (not of large-scale production) may increase; but any such consequential increase in the prices of certain articles will not involve a change in the value of the country's unit of currency in relation to any *external* standard. So long as the increases in wages bring about a nearer approach to internal balance and are carried out sufficiently gradually, the consequences are altogether healthy. On the one hand, the increased demand for home-produced articles will increase the healthy " roundabout " of home trade; and on the other hand, there need be no increase in the price of manufactured articles for

export, for even if some of the wages requiring to be increased should happen to be in industries that manufacture for export, the increased home demand referred to will tend to render any increase in the price of the exportable article unnecessary. It will be recalled that this was one of the considerations previously adduced to indicate the importance of gradualness in the required wage-movements.

And it can be seen that the increased utilisation of the country's currency which arises as a consequence of increases in wages when these are directed towards balance must be the most important element, if not the complete whole, of that inflation of "credit" which the world's unbalanced economy of to-day is widely admitted to require. The real inflation which the general economic situation requires is an expansion of the "roundabout" of industry and commerce by means of an expansion of effective demand in the appropriate quarters.

It is sometimes assumed that "monetary inflation" alone will serve in due course to achieve this desirable expansion in effective demand. But it was shown in Chapter III that under modern conditions this is only true to a very limited extent; and even to the extent that it is true the desired result of an expansion of demand in appropriate quarters is slow in emerging, and there is necessarily a great deal of disturbance (and possibly also some injustice) in the actual process before it emerges.

The additional requirements of currency which may arise when wages are increased in the manner indicated will accompany a real and healthy expansion of the "roundabout" of industry and commerce, for expansion will inevitably occur as the approach is made towards internal balance; and any additional requirement of money in those circumstances will not be detrimental to the value of the country's currency in terms of an external standard.

The increased utilisation of money-credit which is widely acknowledged to be desirable in present circumstances will be automatically brought about in the right place and in the right form when "wages-credit" is increased suitably in the appropriate quarters. In other words, the increase

of " wages-credit " in the manner indicated will itself give rise to a healthy increase in the use of money-credit and at the same time a healthy expansion of the whole " roundabout " of commercial and industrial activity within the country.

As regards foreign competition in the home market, given the necessary measures towards an internal balance of wages (which should be the primary objective of each country), if any protection then (or thereafter) is considered desirable for the home market, the *degree* of protection to be given must be related to the internal position of the country as it emerges after wages are adjusted in accordance with the primary requirements of an approach to internal balance.

With regard to international trade in general it will be realised that, if all countries adopted the measures of wage-regulation required to maintain balanced wages (in the twofold sense) as far as practicable, the " world-balanced production " which implies maximum employment and maximum welfare in all countries would be sufficiently attained.

But pending the arrival of such a happy situation there is a special problem arising out of the present excessive production of certain primary commodities.

" *Over-production.*"

It will be realised that " excessive " production may have a different significance in different cases. There is a profound difference between the case of wheat, for example, and the cases of, say, shoes or gramophones or motor-cars; for the world-supply of wheat at present is not only sufficient to meet the effective demand; there is some reason for thinking that it is sufficient to meet the whole world's real need. There are very few articles of which this could be said. The volume of consumption of most other articles does not attain to the extent of human needs; and the production is not, therefore, excessive in any real sense. The " demand " exists, but it is not " effective." In the case of wheat no more appears to be wanted at all than

can be produced already; but in most of the other cases, if not in all, the position is that there would be an effective demand for the article if people only had the requisite purchasing power.

Thus, in order to remedy the excessive production of wheat, some quantitative regulation of production appears to be desirable. It is conceivable that quantitative regulation may also be desirable in cases of "excessive production" of the other kind; but in most of these latter cases the need for curtailment of production, if it exists at all, should only be temporary.

It is clear, however, from the discussion in preceding chapters, that, when production is curtailed, certain other measures are required in addition if the purpose of remedying economic disorder is to be effectually achieved. Curtailment of production has the immediate effect of throwing still more people out of employment in the producing country concerned, and also for that reason intensifying the economic threat to other countries as well. Accordingly, regulation of production, like protection in the home market, must be accompanied by the measures of wage-regulation necessary to achieve an approach towards balanced wages in each country at an appropriate level.

To illustrate the position in the light of the earlier theoretical discussion :—the withdrawal of labour from the production of an article so as to reduce an excessive production of that article amounts in effect to a potentiality of increased "productivity" in the country concerned by virtue of the labour thus rendered available for production of some other article of greater demand. And, for the reasons indicated in the earlier discussion, this increased potentiality of production requires an increase in the general level of wages.

It is not within the scope of this book to discuss which commodities may require quantitative regulation of production. Political as well as economic factors may enter into this question. But if any plan of quantitative regulation be considered desirable, the "science" of the matter shows that such regulation is not sufficient by itself to

remedy the disorder which it is primarily intended to remove. If there is any quantitative regulation of production, it must be accompanied by an increase in the wages of the reduced numbers retained on the production of the commodity concerned.

It will be appreciated that this increase in wages, while it will itself contribute to a rise in the price of the commodity, will also create at the same time the healthy increase in demand for all other goods which is required to bring about balanced production in each country and over all.

Economic Nationalism and Internationalism in accord.

It has already been noted that when there is an approach to balanced wages, and so to "balanced production," in any country, those who manufacture for export will be enabled by the improvement of home trade to compete in external markets all the more efficiently.

But it is also to be noted that since the maintenance of balanced wages in the twofold sense will necessarily bring about an ever-increasing volume of home trade, the present necessity in many countries (or what appears to be a necessity) constantly to seek further "outlets" for the export of manufactured goods would be much diminished if balanced wages were maintained.

And it will be realised that although protection and the regulation of production are in their nature "restrictive," nevertheless, since the approach to balanced wages in each country (and thereafter the maintenance of balanced wages) means that the home trade will proceeed to its maximum potential capacity, it follows that so long as the policies of protection are related to balanced wages, and so long as agreements for the quantitative regulation of production in certain cases are accompanied by increases in wages for the reduced numbers retained on the production of the commodity concerned, such policies are not, when qualified by those provisos, impediments to the healthy flow of international trade.

Even the theoretical ideal of a perfectly free trade could only be effectually and safely achieved if there should cease

to be any tendency to a competitive reduction of wage-costs in isolated industries across national boundaries; for it was seen that the disturbance of internal balance resulting therefrom must inevitably prevent the attainment of maximum employment. It has been shown that the only way to avoid this dangerous disturbance is to maintain balanced wages (in the twofold sense) in each country. But this same maintenance of balanced wages also enables the home trade to attain its maximum potentiality at the same time; and this will be an ever-increasing potentiality as improvements continue to be introduced in industry. And so, as each country by the regulation of its minimum wages approaches more nearly to the internal balanced production which implies maximum employment for its people, the need for protection and for quantitative regulation of production will diminish to the minimum.[1]

In other words, the position is as follows. When measures are taken to achieve and to maintain balanced wages, the pressure of international competition is diminished at the same time that its dangers are counteracted. The ultimate hope for the reduction, or the disappearance, of trade barriers can only rest on the fact that no country will want to keep them when employment will have grown sufficiently by the adoption of the measures of wage-regulation indicated. Without balanced wages in each country this hope can hardly be fulfilled.

The conflicts of so-called economic nationalism arise when the doctrine of free trade across national boundaries is extended to become a doctrine that there should be no attempt to regulate trade at all anywhere. Such an extension of the free trade ideal pays no regard to the fact that the differences in the natural resources of different countries, together with the extreme facilities that exist to-day for the manufacture and marketing of goods and for effecting human contacts over the whole world, tend more and more to render international competition into a means of

[1] The desirability of maintaining certain indigenous industries (such as agriculture, for example) which may always remain *relatively* uneconomic, suggests that the need of some protective measures can hardly be expected to disappear altogether.

depressing the conditions of industry in each country, with cumulatively disastrous effect for each and all.

It has been shown that if any measures of protection are adopted to support home industry, the degree of protection to be given must be determined in the light of the situation created by the primary necessity of securing an approach to balanced wages within the country. It has also been shown that if there is to be any quantitative regulation of production it must be accompanied by wage-increases which serve to bring about balanced wages at the "appropriate" level in each country concerned. It can now be said that, when these accompanying conditions are fulfilled, any measures of protection which may be required to support a country's home industry, and any measures for the quantitative regulation of production which may be required to prevent an uneconomic glut in the world as a whole, serve to keep in healthy check the otherwise dangerous tendencies of international competition. And, in general terms, when these accompanying conditions are fulfilled, the economic nationalism which any measures of a protective kind must always imply becomes transmuted from an expression of economic hostility towards other countries into a means of achieving a maximum of international co-operation.

The Legacy of Debt.

Finally, in the world's present disorder there is the general problem created by the legacy of Government indebtedness.

This is for each country partly an internal problem and partly an external problem.

If there is any problem internally, *i.e.* for instance, that the burden of debt upon certain classes of the community is regarded as too high in present-day conditions, the question has a political significance which does not come within the scope of this book. All that needs to be said here is that in so far as it may be considered desirable to mitigate any burden of indebtedness lying upon those who are engaged in the depressed industries, the position will be

relieved to some extent by the suggested measures of wage-adjustment, etc. themselves. For both profits and wages are unduly low in the depressed industries; and the increase of wages in those industries, which the discussion shows to be necessary in the interests of the whole country, together with any measures of protection or quantitative regulation of production which are considered desirable, will secure the industrial balance which implies prosperity and maximum employment in the country.

The problem of a country's external indebtedness was discussed in the preceding chapter. The position was shown to be that while political factors may enter into this question also, the economic consequences of debt payment must themselves command prior attention before other considerations (including political considerations) can be usefully applied at all. It was seen in the preceding discussion that international indebtedness can itself bring about an intensification of economic hostility between creditor and debtor countries, unless balanced wages are maintained internally in both the debtor and the creditor countries. In view of the inevitable consequences of debt payment which were illustrated in the discussion, it follows that *it should be the starting-point of political discussion in regard to international indebtedness* that any country's capacity to pay debt and also any country's capacity to receive payment of debt are satisfactorily determinable only by reference to a situation of maximum employment in each country; in other words, maintenance of internally balanced production, *i.e.* balanced wages.

The Requirements Summarised.

Broadly, then, and for the practical purpose of devising the measures requiring to be taken, the essence of the problem is reduced to this. There is in each country separately an economic disorder more fundamental than can be met by international action alone. Necessary and urgent as international action may be for the purpose of removing barriers against the healthy flow of trade and money-credit across national boundaries, this is not the

world's primary need. The barriers themselves have been brought into existence on account of the difficulties which have arisen and still persist solely because the world's primary need remains unsatisfied. The primary need for a balanced production throughout is a balanced production in each country, and this can only be attained by balanced wages.[1]

The first practical steps in each country towards the attainment of balanced wages must be to increase the minimum rates of wages in those industries where this rate is lowest.[2] The process of approach to internal balance in each country should, however, be gradual. And it is most desirable (although not altogether essential) that measures of similar tendency should be taken in all countries as far as possible together.

Should a country desire to protect any of its industry in the home market, the degree of protection to be given must in each case be measured by reference to the internal situation created as a result of the above measures of wage-regulation, which are the first essential.

Should it be decided that there shall be some quantitative regulation of production in certain commodities, any such measures must be accompanied by an increase in the minimum rate of wages among those retained on the production of the commodity concerned.

If these measures are taken, the stabilisation of each country's money unit need not be delayed, for it has been seen that the value of a country's unit of currency in terms of an external standard is not affected by measures of wage-regulation directed towards the attainment of internal balance.

[1] Incidentally, the analysis of the implications of balanced production reveals a ground of serious practical objection to the introduction of a 40-hour week *in the present conditions of industry*; for the wide divergences of wages already existing between the several industrial groups would in effect be intensified by the shorter working week, unless wages are reduced in proportion. In other words, to pay the same wages as at present for a diminished work-time would bring about a still further departure from "lateral balance" than exists already.

On the other hand, if wages are once in "lateral balance" the reduction of the working-week without reduction of wages will immediately become a more practicable proposition.

[2] Rates of wages above the minimum in each industry concerned may also have to be increased; but not necessarily, and certainly not always, by as much as the minimum is increased (see page 67).

And if all these conditions are fulfilled, the home trade in each country will be enabled to expand towards its maximum capacity, and the need for measures of protection and restricted production, which may be regarded in many instances as necessary at the present time, will steadily diminish to the minimum. Thereafter, so long as balanced wages are maintained in the manner indicated, every country will gain by the economic progress of any one.

A Glimpse of the Subsequent Problem.

What of the future after the first objective of balanced wages in each country is achieved?

It has been seen that in order to maintain a situation of balanced production it will be necessary to go on increasing the minimum wage throughout each country gradually as time goes on. Thus, after the first objective of balanced wages in each country has been achieved, the essential nature of each country's economic problem in maintaining maximum employment will be to determine what minimum wage for the whole country is appropriate in the existing circumstances of the world as a whole.

In theory, the determining factor for the appropriate degree of the upward movement in the minimum wage at any time must be the resultant of two factors which play in opposite directions. On the one hand, an increase in the minimum wage is warranted by the country's ever-increasing power of production; and on the other hand, the increases in the minimum wage must be limited by the necessity of maintaining an adequate trade abroad to enable the country to import such goods as it may require in addition to its own production. Thus, when internal wages are once in balance with one another so that home trade itself is at the maximum, it would be possible to increase the minimum wage from time to time up to the point that a further general increase would tend to bring about a degree of unemployment (by virtue of a failure to compete adequately in world trade) which cannot otherwise be absorbed within the community.

In practice, the determination of the appropriate minimum wage cannot be a matter of precise measurement. Nevertheless, as wage-regulation along the lines indicated will be in the right direction, the problem in practice is simplified by the fact that the wage-increases should in any case be gradual. So long as the increases are gradual, it should not be difficult to avoid an excessive movement.

When wages are regulated on these principles, prices will find their own appropriate level in balance with one another. They can hardly do so otherwise.

The upward movements in the minimum wage from time to time will have the effect of counteracting the tendency towards trade boom before it proceeds to the length which inevitably gives rise in turn to the depression of the slump. And because, by means of wage-regulation on the lines indicated, trade remains as nearly as possible stable, the exchanges will remain stable too.

It may be contended that, if wages have to go on increasing gradually, the volume of credit required for trade must go on increasing gradually as well. This is true. But it is not necessarily a difficulty. So far as money-credit is utilised for legitimate business, the proportion of the money-credit to the gold held by the Central Bank must be of minor importance if balanced wages are maintained; for industry will then be as near stable as possible and employment will be at the maximum. In those circumstances the amount of credit allowed for legitimate business could quite well be the amount which is demanded by business men under the ordinary conditions attaching to its use.

Whether there should be some additional control of money-credit used for speculation is a special problem. But, in any case, when balanced wages are maintained by an appropriate regulation of the minimum, the resulting stability of industry will reduce the volume of speculation to a minimum.

Thus, the problem of relating the amount of money-credit within the community to the amount of gold held by the Central Bank, which is a technical problem of banking, will probably yield a fairly simple answer in practical life, if balanced wages are maintained.

The Special Position of Great Britain.

While each country has an interest in the achievement and maintenance of balanced wages in other countries as well as in its own, Great Britain is in a position to adopt these measures of wage-regulation to a considerable extent with success, even though other countries might not do likewise.

What is the present position in regard to wages in Great Britain? How far does a balance of wages exist or how far is there a departure from balance?

Before proceeding to the actual rates of wages it is desirable to take note in a general way of how employment is distributed among the industrial groups in this country.

The chief classes of employment may usefully be shown under five main headings as follows; the figures are taken from the summary of the last census available at the time of writing, namely the census of 1921:

	Numbers Employed.[1]
Class 1. *Production of Primary Products:*	
Agriculture	1,123,962
Coal-mining	1,132,668
Other mining and quarrying, etc.	99,062
Class 2. *Manufacture:* comprising all kinds of manufacture concerned with the actual making up of "raw material" into something else (including the building and contracting groups).	
Building	720,670
Cotton manufacture	595,555
Engineering (not marine or electric)	529,826
Marine engineering and shipbuilding	283,443
Wool and worsted manufacture	237,335
Iron and steel manufacture	216,056
Manufacture of cycles, motors	199,086
Boots, shoes, etc.	195,237
Many others of various kinds	—

[1] The numbers in each group include employers as well as employees; they also cover both males and females regardless of age.

	Numbers Employed.[1]
Class 3. *Services ancillary to trade:*	
Railway transport	548,673
Other transport and communication	654,893
Commerce and finance [2]	2,275,148
Professions, etc.	514,776
Class 4. *Public Administration and Defence:*	
Total numbers	1,335,879
Class 5. *Personal Services:*	
Private personal service	1,232,046
Hotels, inns, etc.	240,620
Other personal services, *e.g.* laundries, hairdressing, etc.	574,159

There are other smaller classes, of course; and not all of the above classes are as clearly marked one from another as the division might imply. For example, postal services, although classed as Public Administration, might be regarded as better placed if included in Class 3, and so on. But, in the main, the above division will serve the present purpose sufficiently well, as the figures given convey a general idea of the relative weight of the main classes and groups of employment in Great Britain.

The functions of the different classes as shown above are fairly distinct. Classes 1 and 2 are producers in the literal sense; the function of Class 3 in the industrial field is, broadly, to facilitate the exchange of goods for goods; Class 5 furnishes the further, but perhaps less essential, amenities of civilised society, and Class 4 the public services in the Government sense.

Incidentally, it will be noticed that since many of the industrial groups in Class 3, while playing a very important part in the industrial life of the country, are wholly ancillary to the processes of production and exchange (using those terms in their literal sense) of material goods, it is particularly important for the maintenance of internal balance

[1] The numbers in each group include employers as well as employees; they also cover both males and females regardless of age.

[2] Wholesale, retail and distributive trades, banking, insurance, etc.

that the foundation-wages in those groups should not be unduly high in relation to those of other groups; for in so far as wages, for example in the case of railways, play a part in determining railway freight charges, any departure from balance with the rest of the industrial community tending relatively to inflate the costs of transport becomes a burden on the community many times accumulated, since freight charges may occur at many stages of production from the raw material to the final product. And so the importance of internal balance applies with additional force in the case of the transport industry, seeing that an undue burden of freight charges will prejudice the export trades on whose thriving this country depends. The same considerations also enter in the case of certain other industrial groups, *e.g.* the group for electric power supply (whether this group would fall more appropriately in Class 2 or Class 3 is immaterial). It will be noticed, moreover, what a heavy proportion of the country's working population is employed in the ancillary services. It is not improbable that the proportion of those engaged in this class of employment to those engaged in other classes will continue to increase; and it will be realised that the first essential requirement, namely, lateral balance, *i.e.* a balance of wages among themselves, thus becomes of more and more importance and more and more necessary to bring about by deliberate action.

The position in regard to wages is illustrated in the table of minimum rates in England and Wales which is given on pages 116 and 117.

The table has been compiled primarily from the Ministry of Labour's Twentieth Abstract of Labour Statistics of the United Kingdom, March 1931, which is the latest official publication to give comprehensive information in regard to rates of wages. The information is dated 31st December, 1930. There have been changes in rates since that date, but the present purpose is sufficiently served by showing the general picture at some point of time in the recent past.

The publication above quoted does not give rates for every kind of employment, and recourse has also been had in

certain cases to another Ministry of Labour publication; namely, "Standard Time Rates of Wages and Hours of Labour in Great Britain and Northern Ireland at 31st August, 1929."

The table can accordingly be taken as representing fairly accurately the comparative picture of minimum wage rates during the year 1930.

The First Necessary Step in Great Britain and what it Involves.

It will be seen from the table that the minimum rates in the different industries vary considerably.

But the minimum rate for the lowest grade of labour in each industrial group is bound to have effectually some influence as a foundation-wage, to which the rest of the wage scales in the vertical channel of each of the undertakings within that industrial group are related. It could hardly be otherwise.

Thus there is undoubtedly in this country a very serious departure from internal balance; and it follows that the first necessary step must be an increase in the wages of agricultural labour, which are the lowest of all.[1]

The first question that arises is: How can such a programme work at all? If the wages of agricultural labour are to be raised, the price of the product will also have to be raised in order that the home agricultural industry shall be profitable.

As to this, it is the country's declared policy to retain and encourage a rural life and agricultural industry. This given, we must face the economic consequences.

The argument has shown that it is the first essential for a healthy economy that measures should be taken to secure an approach to balanced wages within the country.

But it has also been indicated that the practical difficulties in reconciling the necessity of balanced wages with the maintenance of an "uneconomic" industry are not insuperable. The only condition is that any desired measures of

[1] Since 1930 the minimum rate for agricultural labour has in certain localities fallen even below the figure of thirty shillings given in the table.

MINIMUM RATES OF WAGES IN ENGLAND AND WALES, 1930

In the column "Source of Information," "A" represents the "Twentieth Abstract of Labour Statistics of the United Kingdom," published March 1931, and "B" represents "Standard Time Rates of Wages and Hours of Labour in Great Britain and Northern Ireland at 31st August, 1929."

Minimum rates are usually definite rates applicable within a defined area. The statement, frequently occurring in the following table, that minimum rates are "from . . . to . . ." means that the minimum rates vary within the range stated, according to the locality in England and Wales; not that the minimum rate in any locality is an elastic rate.

Source of Information. (1)	Employment. (2)	Minimum Wages: *i.e.* wages of lowest grade of adult male labour per hour. (3)	Minimum Wages: *i.e.* wages of lowest grade of adult male labour per week. (4)	Normal weekly hours. (5)	Equivalent wages for a week of 48 hours. (6)	Minimum earnings in a week. (7)
A	Agriculture	—	From 30*s.* to 35*s.* (*a*)	From 48 to 54 (*b*)	From 30*s.* to 33*s.*	From 30*s.* to 35*s.* (*a*) (*c*)
B	Coal mining	From 6*s.* 1½*d.* for 8-hr. shift (Forest of Dean) to 7*s.* 11*d.* for 7½-hr. shift (N. Derby and Nottingham)	—	From 45 to 49 (*d*)	From 36*s.* 9*d.* to 50*s.* 8*d.*	From about 37*s.* to about 49*s.* 6*d.* (*e*)
B	Ironstone and iron ore mining	From 5*s.* 7¾*d.* to 6*s.* 4*d.* for 8-hr. shift	—	48 or 49	From 45*s.* 2*d.* to 50*s.* 8*d.*	From about 46*s.* to 50*s.* 8*d.*
B	Quarrying	From 11½*d.* an hour	—	From 44 to 48 in summer. From 41½ to 48 in winter (38½ in winter exceptionally in one case)	From 46*s.*	From 38*s.* 0½*d.* or more
B	Building	From 1*s.* an hour to 1*s.* 2¾*d.* an hour (1*s.* 4*d* an hour in London) (*f*)	—	44 to 46½ subject to a few exceptions	From 48*s.* to 59*s.* (64*s.* in London)	From 44*s.*

(*a*) Excluding only Derbyshire and parts of Lancashire (see Note 2). The rate in Derbyshire is exceptionally 36*s.* for a week of 54 hrs.
(*b*) In parts of Lancashire the hours are 60 a week in summer and winter.
(*c*) In some cases a small payment is made in addition on each occasion that the worker visits his place of employment for the purpose of milking.
(*d*) Exceptionally the hours for surface labourers at Radstock and S. Derbyshire collieries are 51½ a week.
(*e*) This is difficult to calculate from the information given, as a complication arises from the application in certain circumstances of "subsistence" rates.
(*f*) At a few small places the rate for minimum labour is under 1*s.*, but they are very few and have been excluded for that reason.

Source of Information. (1)	Employment. (2)	Minimum Wages: *i.e.* wages of lowest grade of adult male labour per hour. (3)	Minimum Wages: *i.e.* wages of lowest grade of adult male labour per week. (4)	Normal weekly hours. (5)	Equivalent wages for a week of 48 hours. (6)	Minimum earnings in a week. (7)
B	Cotton Manufacture	—	43*s*. 1*d*.	48	43s. 1d.	43*s*. 1*d*.
A	Engineering (not marine or electric)	—	From 39*s*. to 50*s*. (*g*)	47	From 39s. 10d. to 51*s*. 1*d*.	From 39*s*. to 50*s*. (*g*)
A	Engineering (marine and shipbuilding)	—	From 40*s*. to 54*s*. (*h*)	47	From 40s. 10d. to 55*s*. 2*d*.	From 40*s*. to 54*s*. (*h*)
B	Wool and Worsted Manufacture (Yorkshire)	—	52*s*. 8*d*.	48	52s. 8d.	52*s*. 8*d*.
B	Iron and Steel Works and Blast Furnaces	From 5*s*. 10*d*. to 6*s*. 9*d*. for 8-hr. shift	—	47	From 35s. to 40*s*. 6*d*.	From 34*s*. 4*d*.(?) to 39*s*. 8*d*.
B	Boot and Shoe Manufacture	—	56*s*. at 22 yrs. of age (*i*)	48	56s.	56*s*.
A	Railway Transport	—	From 42*s*. to 44*s*. (Porters Grade 2)	48	From 42s. to 44*s*.	From 42*s*. to 44*s*.
B	Wholesale and Retail Distributive Trade (*j*)	—	From 49*s*. 6*d*. to 60*s*.	44 or 48	?	?
B	Printing	—	From 47*s*. 6*d*. to 57*s*. 6*d*. (*k*)	48	From 47s. 6d. to 57*s*. 6*d*.	From 47*s*. 6*d*. to 57*s*. 6*d*.
B	Electricity Supply	From 1*s*. 1*d*. an hour	—	Mostly 48	From 52s.	From 52*s*.
A	Paper Manufacture	10⅝*d*. an hour and 11⅝*d*. an hour	—	48	42s. 6d. and 46*s*. 6*d*.	42*s*. 6*d*. and 46*s*. 6*d*.
A	Dock Labour.........11*s*. a day (*l*)					
A	Local Authority Services	—	From 47*s*. 8*d*. to 62*s*. 8*d*. (with one exception at 44*s*.)	44 to 48	?	From 47*s*. 8*d*. to 62*s*. 8*d*. (with one exception at 44*s*.)

(*g*) This is the rate for Engine shop labourers.
(*h*) In London exceptionally the minimum rate is 54*s*. and hours are 45 a week.
(*i*) Applies generally throughout the country (with minor exceptions).
(*j*) The rates quoted are those operating as minimum wages in the Co-operative Societies by agreement between them and the Trade Unions concerned.
(*k*) The rates quoted are those for General Assistants, who are relatively unskilled. The rates vary according as the town is "graded."
(*l*) The rate appears to reflect to some extent the relatively casual nature of the employment.

protection for the agricultural industry must be applied in accordance with the principle illustrated in the argument of the preceding chapter. That is to say, the *degree* of protection to be given must be determined so as to allow of a normal profit to the entrepreneur *after wages have been determined in accordance with the requirement of an approach to internal balance.*

The practical position can be most usefully illustrated in the case of wheat.

Measures of protection can be of more than one kind. Two kinds of protection are common, namely, protection by a tax on imports and protection by complete embargo against any importation at all.

But there is yet another method of protection which has recently been adopted in this country for wheat. This method was introduced by the Wheat Act, 1932. That Act provides for the grant to the growers of home-grown millable wheat of what is called a "deficiency payment." And the deficiency payment is simply the difference between the average free market price of wheat and the "standard price," which at the date of the Act was taken as 10*s.* a hundredweight, the average free market price being, of course, less than 10*s.*

This kind of protection has the special merit that it sustains the profits of farmers at an adequate figure to ensure the continuance of the wheat-growing industry at home, without giving cause for any rise in the price of bread directly to the consumer. It will be realised, incidentally, that if there is coupled with this kind of protection an arrangement with other countries whereby those countries are notified as to what quantity, or quota, of imported wheat this country will regard as acceptable, this additional measure does not itself bring any benefit directly to the people of this country; but it does help the other countries concerned to take the necessary steps to secure their own internal balanced production, should they be so minded, in nearer conformity with the world's requirements as a whole.

As shown in the preceding argument, an approach to balanced wages in the country is the first essential in

order to increase employment within the country. So the safeguarding of our agricultural life which is the presupposed desideratum must accordingly take the form of superimposing the desired policy of protection upon prior measures of wage-regulation which are themselves the first requisite for achieving an approach to internal balance.

Thus, it is a primary necessity to increase the wages of agricultural labour. The resultant rise in the price of a certain number of agricultural products must be faced; but this can the more easily be done, seeing that it will be accompanied by an increase of employment in other industries at home by reason of the then inevitable increase in home trade.

In the special case of wheat, taken for the purpose of illustration, if the present method of protection is maintained, a rise in agricultural wages would require that the standard price already referred to should be raised above its present figure of 10s. a cwt. In making deficiency payments in relation to a standard price higher than 10s. (because wages are to be raised above their present figure) the country will not be giving any further subvention to profits; it will be simply supporting the wages of a particular industry, in accordance with the primary necessity, in the interests of the country as a whole, of achieving as far as possible the necessary internal balance.

Must the country, then, similarly support the price of everything that the farmer produces? Not necessarily.

It will be realised that in this country wheat is in a special position; for wheat has the double qualification, first, that it is essential as food, and secondly, that it is produced in this country in much less quantity than can meet our requirements of such food. To give an artificial support to the price of wheat for the reasons stated does not therefore imply that we should be justified in applying that same method of protection to any other product of agriculture which does not, for instance, fulfil the two qualifications mentioned, or to any articles of industry which are not primary products.

It is not within the purpose of this book to discuss whether

any particular products of agriculture other than wheat would require the same method of protection, or the alternative method of import tax, or indeed any protection at all. Such a discussion must in any case raise technical questions as well as questions of a political character, and must be left to others.

But the position resulting from an increase in the wages of agricultural labour can be illustrated in a general way. Suppose that all agricultural labour were to get an increase of only 6*d.* a week in wages to begin with. Taking round numbers at a maximum estimate to see what the cost would be, it can be assumed that 1,000,000 individuals would receive the extra 6*d.* Even if all of these were engaged in the production of wheat (which, of course, they are not), this would mean a burden on the Exchequer, by way of increased deficiency payments under the Wheat Act, of £25,000 in a week or £1,300,000 in the year. But consider what advantage follows from the position that agricultural labourers will be able to spend £25,000 in every week more than at present. What would it be spent on? Clothing, travelling, boots, furniture? And suppose that a great deal were also spent on beer. Even assuming, for the sake of argument, that barley and hops would not be regarded as fulfilling the conditions required to justify the same method of protection as is given to wheat, so that barley and hops would claim a higher price from the consumer, the increased consumption of beer would tend to enable the breweries to maintain their present total of profits in spite of the higher price they would have to pay for barley and hops. Here is a practical illustration of the theoretical conclusion reached in the previous analysis that the maintenance of stability requires that increases in wages, however justifiable, should be made gradually.

Possible Objections Answered.

First, as regards cost. The community is already, under the Wheat Act, bearing the cost of protecting agricultural labour to the extent of supporting the price of home-produced wheat under the existing conditions of low agricul-

tural wages. The burden of this cost is distributed among the community as taxation is distributed and not in the form of an increased price of food. The further cost of supporting the price of home-produced wheat, after the wages of labour in that industry have been raised, would be similarly distributed. And as to the amount of this further burden on the community, this will be offset in two ways by reason of the nearer approach to a balance of wages within the country, which means a nearer approach to balanced production in the country as a whole. By such an approach to balance, the "circle of industry" within the country is made more "true," and there will be a greater and a quicker reduction of unemployment throughout industry as a whole than could be achieved by any other means. The "vicious circle" begins to become "virtuous." This first. And, secondly, the greater prosperity of industry which will arise for the same reason will yield a corresponding increase to the revenue.

With regard to the last point, it will be realised that the revenue which comes to the Exchequer from internal taxation of whatever kind is effectually drawn from the total profit from production which is achieved by the country's industry as a whole. The more "true" is the circle of industry, the more exchanges of one product effectually for another can take place within the country; and as the effectual exchange of one product for another normally represents two profits, the field of profit becomes widely extended and the yield of taxation correspondingly increased. The "true circle" of a balanced production implies a greatly increased potentiality within the community of carrying out exchanges of one product effectually for another; and the multiplication of such exchanges in relation to a given productive capacity in the country as a whole represents a healthy increase in what business men speak of as turnover. In this way the total profit from production out of which the revenue is drawn may be increased very greatly indeed. It might even turn out to be the case, although one cannot make the definite assertion in advance, that, over and above the direct saving to the

community on unemployment benefit, the increase in the revenue itself would more than cover the extra cost of supporting the price of home-produced wheat in respect of the increase in agricultural wages. Moreover, it will not be overlooked that, apart from the direct advantages of a greater revenue and a smaller burden of charges for unemployment, the need for expenditure on services of a purely eleemosynary nature will also be diminished as the progress towards a balance of wages achieves a nearer and nearer approach to balanced production within the country, which means maximum employment.

Some people may be inclined to reject the course of action here suggested as the first necessary step towards righting the economic disorder on the ground that it amounts to a subsidisation of wages by the Government, and so offends against that cardinal principle of an old-standing economic creed which says that free industry should in all circumstances be independent of Government support. But it will be remembered that this principle was devised and adopted at a time when it was assumed that wages themselves admitted of no other regulation at all than was crudely brought about by the operation of the ratio of supply to demand. In such circumstances it would naturally appear improper to impose upon the rest of the community the burden of supporting the wages of any particular industry.

The whole analysis of the preceding chapters goes to show, however, that some wage-regulation is necessary. Thus the foundation of the old economic principle is uprooted, and we are in effect on new ground. Nevertheless, the real essence of the old principle still remains, in the sense that no wages should be *treated preferentially* at the expense of the rest of the community. But if it is considered desirable in this country to retain a rural population; and if the price of wheat is for that reason supported by the Government in order to safeguard the farmer's profit, the further support of the price of wheat which is required on account of an increase in agricultural wages does not amount to giving preferential treatment to agricultural wages at the expense of the rest of the community; it is, quite apart

from the protection of the wheat industry as such, a necessity for securing economic health in the community as a whole. In fact, it enables other wages to be maintained and employment in other industries to be extended.

The application of the principles of balanced wages in the manner indicated is simply the practical means of securing that the demand for labour required by the country's industry as a whole shall tend to equal the supply of labour available.[1] So, when other countries also apply the principles of balanced wages internally, then wheat, for example, will cease to be produced to such an extent as makes the total world-supply excessive (on the average) in relation to world-demand; and then the price of wheat will automatically rise to such a figure as will reduce this country's burden in supporting the price of home-produced wheat, in so far as the burden arises from the increases in wages necessary for internal balance. And the position in this country would be describable as follows: that, so long as other countries neglect to act in conformity with the principle of balanced production, *i.e.* balanced wages, within their own boundaries, the first steps towards internal balance in this country, by which we secure for ourselves an approach towards economic health, *i.e.* full employment, will have to be paid for by the country to the extent that the increase in the deficiency payments given for home-produced wheat represents the increase in agricultural wages. To the extent that other countries learn to act in conformity with the principle of balanced wages within their own boundaries, so will the need for a special support of the price of wheat in this country diminish.

But even in the interim, as already explained, the cost to this country is offset in other directions. And, moreover, the notification to other countries of the quantity of wheat which this country is willing to buy will serve to define the world-supply position more clearly, and so should tend to induce the other countries themselves to achieve the internal

[1] Of course, the means cannot be perfect. There are human factors in the problem which prevent this, such as the individual's sentimental, or other, attachment to a particular locality; the necessity for special qualifications in particular industries, etc. Nevertheless, the continual entry of new young labour into the field of industry gives an opportunity of counteracting these impediments.

balance within their own boundaries by which a still nearer approach will be made to the fully balanced production which the world as a whole requires.

Thus, in so far as the word "subsidy" conveys something of which to disapprove, it is already the policy of the Wheat Act to subsidise the home wheat industry for the sake of maintaining the industry in being. The support for a higher price of home-produced wheat as a consequence of increased wages in agriculture, if it is to be called a subsidy at all, is a subsidy in aid of the whole of the country's internal industry, and is shown to be an absolute necessity for securing an approach to the balanced production which alone connotes economic health and the maximum of employment.

When all this is conceded, however, it may be asked how would such a policy be affected should our politicians decide, before this wages programme can be brought to fruition, that sterling must be stabilised at a definite valuation in terms of a given weight of gold.[1]

As to this, the position can be clarified as follows.

It is true, of course, that the value at which sterling may be stabilised must have a definite influence in determining the appropriate minimum rate of sterling wages upon which the internal balance of wages should be constructed; for the value, in terms of other exchanges, at which sterling may become stabilised has an influence on the volume of the country's trade with other countries, both exports and imports; and it has already been noted that the appropriate minimum rate of sterling wages depends on the country's capacity to compete "adequately" in world markets (including the markets at home). In other words, while it is always possible to lay down any figure as a minimum wage and bring about an internal balance of wages at that level *for all those who are in employment*, this does not by itself ensure maximum employment. The necessity for maintaining a competitive power in world markets sufficient to enable the country to acquire necessary imports is the effectual determining factor for arriving at the appropriate

[1] It is conceivable that such decisions might have to be reached in the interim for the sake of international agreements in finance or commerce.

figure for the minimum wage such that the total employment within the country shall be the maximum possible.

This necessity for maintaining a sufficient competitive power in world markets operates effectually as an influence on wages and incomes in the country all the while. (In the present situation of unbalanced internal wages the full operation of this influence throughout the country is a slow and cumbersome process of direct and indirect action and reaction through the various channels of industry; and by the time that all its results are fulfilled, many other factors have intervened to affect every field of industrial life, so that the results of this particular influence by itself are never fully or precisely identifiable.)

Thus, even when wages are not balanced, there is, so to speak, a "representative level" of wages generally in the whole country which, in effect, determines the country's capacity to compete in world markets; and we may say that the representative level of existing "foundation-wages" in the country corresponds to the minimum wage which in a situation of balanced wages would determine the same capacity of the country to compete in world markets.

But the approach to balanced wages within the country, apart from resulting in an improvement of internal trade, will also tend to improve the competitive power of the country as a whole (by virtue of the diminished necessity to support the unemployed, and fuller production from existing industrial plant, etc.). Moreover, seeing that no check need be expected to the continued advance of the country's industrial efficiency as a whole, the minimum wage (in a situation of balanced wages) to which the "representative level" of existing foundation-wages corresponds would itself require to be increased continually to match the progress of industry. We can therefore conclude that, whatever may be the ultimate value of sterling in terms of gold, the present competitive capacity of this country in relation to the rest of the world would not be prejudiced, to say the least, by increasing to some extent the present rates of agricultural wages, which are the lowest of all in the country.

Wage-adjustments must be gradual in any case; and an adjustment which satisfies the two conditions, each a reinforcement of the other, namely, that it secures an approach towards internal balance and is at the same time in the direction required by the advance of industrial efficiency, appears to be fully justified on those grounds.

It is not difficult to perceive an endorsement of this conclusion from considerations of the actual position in practice; for in this country agricultural products play no part, or very little part, in the country's export trade, even indirectly; so an increase in agricultural wages as a first step can bring the promised benefit to home industry without detriment to the country's capacity to export goods at competitive prices.

We can therefore confidently confirm our conclusion as to what the first step in practice should be.

After the First Step has been Taken.

The nature of the steps to be taken later on and the choice of the time for taking them need not here be discussed; they have been sufficiently indicated in a general way. But at the outset one thing is clear. While agricultural wages are gradually raised more and more nearly to an equivalence, all things considered, with rates for other labour of the same "quality," there must in no circumstances be any increases in the foundation-wages, generally speaking, in any other considerable area of industry. That would simply be a departure from balance again. If profits in urban industries should tend to increase unduly, we must rely ordinarily on competition to keep them at a normal figure. In spite of modern tendencies towards amalgamations, price agreements, etc., the force of competition in profits is unquestionably very effective over a considerable field of industry, as experience in recent years has abundantly confirmed.

The minimum wages in the agricultural industry should be gradually increased until they attain the same level, all things considered, as minimum wages elsewhere.[1] When that

[1] It may be observed, incidentally, that the cheap and increasing opportunities of pleasure and of cultural activity in the towns, coupled

position has been reached, but not until then, further increases of industrial wages may justifiably be distributed over an area extending beyond that of agriculture.

Conclusion.

It has sometimes been said in criticism of business men in this country that they are neglecting the home market. It is true that the home market is neglected. It is neglected to the extent, for example, of that considerable body of workers who are engaged in agriculture. The position is that these people, a body of workers approximating at the present date to something like one out of eleven of the whole working population of the country, have insufficient purchasing power to balance the available production of manufacturing industry. There is no neglect on the part of business men. There is no lack of enterprise on their part, and no lack of confidence when circumstances warrant it. (On the contrary, it might be a more justifiable criticism of individual business men that when a situation shows the slightest improvement their optimism, collectively, carries enterprise too far.) The neglect is on the part of the community as a whole; it is a neglect to put into operation the only means of translating the demand for goods, etc. at home into an effective demand, and of maintaining it so. The remedy is only fully attained when the country has a balanced production; and this requires the maintenance of balanced wages.

The "maintenance of balanced wages" implies both a "lateral balance," *i.e.* a balance of wage-rates among themselves (in the sense defined in Chapter II), and a "forward balance," viz. a gradual but persistent advance in the minimum wage for the whole country as the capacity of production increases.

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with the greater accessibility of the peculiar pleasures of the country whenever the latter may be desired, is not unlikely, as time goes on, to render the conditions of agricultural employment into relative disabilities rather than attractions; and it may be that in time, should a government purpose to retain a population domiciled in the country, it will only be able to achieve that purpose by making agricultural employment actually more attractive in respect of its monetary remuneration than many employments in the town.

Both balances are necessary for the maintenance of balanced production, which means maximum employment; and both balances must be maintained as far as practicable all the while. An increase in the minimum wage of a particular industry beyond the common level for the whole country becomes a factor of economic disturbance because it is a departure from "lateral balance"; and economic disturbance also occurs if the wage-level for the whole country is not advanced sufficiently as time goes on, for then the necessary "forward balance" is upset.

In the circumstances of grave disequilibrium that exist to-day, measures taken to increase the minimum wage in those industries where it is lowest will satisfy the two conditions which are necessary for an approach to balanced production; because they will secure a nearer approach to "lateral balance" and at the same time a nearer approach to the "forward balance" which has been so seriously upset.

These measures should be pursued until lateral balance is sufficiently achieved; and the necessary increases in wages should be made gradually in order to avoid undue disturbance to industry as a whole. And the maintenance of balanced wages in the twofold sense thereafter is not only shown to be necessary for the maintenance of maximum employment, but it also promises a progressive improvement in the material welfare of the whole people.

It is fashionable now to speak of a "planned economy." A planned economy may comprise many schemes of various kinds. It is the argument of this book that, whatever other schemes may be adopted additionally, wage regulation along the lines indicated must ultimately form part of the measures necessary for improving the economic situation. Such wage-regulation does not in any way run counter to the essentials of the system under which we live; it would serve to remedy, in fact, the one vital defect in that system. And the "planned economy" achieved by such wage-regulation might almost be described as a reconciliation between opposing camps; for it would secure that the maintenance of individual freedom as we know it shall not impede a steady and continual advance of general welfare.

And finally, if action on the lines indicated is taken in this country alone, the likelihood of other countries acting similarly, and therefore of hastening the removal of all the barriers to the adequate flow of international trade, will be many times enhanced; for the best possible means of securing any agreed measures that may be required for the welfare of all countries will be the illustration that such measures can to some extent be taken by one country independently, without prejudice to the fullest co-operation at any subsequent time; and that, even under the handicaps imposed by a restriction of action within one country alone, the advantages promised are fulfilled in securing the country's economic health and an improved standard of living for all its people.

CHAPTER VII

A SHORTENED FORM OF THE ARGUMENT AND A MEMORANDUM AS TO THE BASIS OF ACTION ACCORDINGLY

(This brief statement is only a summary of salient points; and it is necessarily incomplete as an argument. Moreover, many important parts of the text which are concerned with explanation and proof, *e.g.* the greater part of Chapters IV, V and VI, are not referred to in the summary at all.)

A situation of full employment implies that each kind of goods (and services) is " produced " to the extent required for their effectual " exchange " with other kinds of goods (and services) so that there is a " balanced production " over all. " Balanced production " is therefore the objective.

Costs of production in the last resort (that is, taking all the processes of production from the " raw material " to the ultimate product) are predominantly wages;[1] and balanced production therefore requires that wages should be " appropriately balanced " throughout all industrial groups.

In a self-sufficient community the " balanced wages " necessary for a balanced production is shown to involve a twofold balance. There must be an appropriate balance of purchasing power as between the various industrial groups, and a balance must also be maintained as time goes on between the community's total purchasing power and the community's whole power of production.

The first balance, *i.e.* the balance between industrial groups, secures " lateral stability," and the second balance secures " forward stability," in the ever-forward-moving industrial mechanism. Stability over a period of time is impossible unless both balances are sufficiently maintained.

[1] The term " wages " is used throughout to include *all* earnings of " employment," whatever the nature of the employment may be.

The first balance can be effectually secured in practice by the operation of a common minimum wage for adult employment throughout the whole of the community's industry; [1] all other wages would tend towards the appropriate balance among themselves, because they would necessarily find their due relation to the minimum wage for the industry concerned.

With regard to the second balance, the distribution of the increased purchasing power which is required from time to time to match the community's increasing power of production must necessarily be made in such a way that the "lateral balance" of industry is not upset. And modern industry's great and ever-increasing capacity of inexpensive mass-production in numerous classes of goods indicates that the most suitable distribution of the increased purchasing power will be such as gives a maximum share of the increase to the lowest-paid workers. In other words, the community's minimum wage must be increased continually. But the increases must be gradual in order that the complex activities of industry as a whole may not be unduly disturbed in any particular part.

The regulation of a minimum wage on these lines for the whole country is not an "interference with industry." On the contrary, it is an aid to general prosperity, for such regulation is shown to be necessary for the attainment and maintenance of the stability which every business man desires.

The necessity for a continual increase in the community's minimum wage should give no cause for surprise in view of the following considerations:

(*a*) Wages are an advance payment to the worker in anticipation of a marketable value in the product of his labour.[2] This advance payment, like any other

[1] A common minimum to all intents and purposes. There may have to be some minor variations to correspond with the degree of "more or less" in the attractiveness of different kinds of employment, arising, for example, from the locality of the employment, conditions of work, etc.

[2] Although this is expressed in a way that covers only "productive" labour, the same considerations arise whatever the nature of the employment may be.

money, gives to the wage-earner a claim to some of the community's production. But as the essential nature of trade is an exchange of goods (and services) for other goods (and services), the claim to some of the community's production is not fully established, as it were, from the community's point of view until the product of the labour has been completed and marketed. In other words, *wages are nothing but a " credit "* to the wage-earner given ultimately by the community as a whole; and this " wages-credit " is effectually " liquidated " from the community's point of view when the product of the labour has been completed and sold, and not before. " Wages-credit " only differs from the money-credit given by a bank in the fact that its distribution among the wage-earners is conveyed through the further agency of the employer of labour. The two kinds of credit do not differ at all in their essential nature.

(*b*) Wages have the double character of being both an advance payment in respect of production, i.e. *supply*, and also a prerequisite of *effective demand* by which alone supply continues and prices remain stable.

(*c*) In view of the ever-increasing number of articles of mass-production, not only a high total of purchasing power but the widest possible distribution of increased purchasing power becomes of ever-increasing importance for sustaining effective demand at an adequate figure in relation to supply.

Thus, a condition of balanced wages in the twofold sense of a " lateral " and a " forward " balance is essential, even in a self-sufficient community, in order to maintain balanced production and so a maximum employment for the people.

International trade cannot itself offer the means of balanced production in any particular country when the above conditions, shown to be required even in a self-sufficient community, are not themselves fulfilled. On the contrary, our present habit of leaving industries to fight their own battles of world-competition in isolation from the rest of

the industrial community in each country actually allows international trade to upset the necessary internal balance in each country and to prevent its restoration. For the need in each country of absorbing the unemployed serves to intensify international competition, and accordingly to bring about an additional stimulus to industrial improvements or a tendency towards reduction of wages in the industries concerned. But under present conditions either of those events gives rise to an accumulation of economic disorder, because the one disturbs forward balance and the other disturbs lateral balance. This is the origin of the paradox in the world's economic problem.

It follows that, as " balanced production " in each country cannot be achieved without " balanced wages " internally, this **internal balance is the first requisite for a healthy economy. It should accordingly be each country's first objective.** And the measures necessary to attain the further objective of maintaining an " adequate " competitive power in relation to the economic conditions external to the country should be devised so as to accord with the basic measures required first of all for the attainment of internal balance.

As a particular example of this last statement : If it is desired to protect any article in the home market, the degree of protection to be given must be related to the necessity of protecting the home-producer's profits *after wages have been determined in accordance with the requirements of internal balance.*

By maintaining balanced wages internally the home trade is maintained at the maximum. On the other hand, without balanced wages internally the full potentialities of home trade cannot be realised.

The stable rates of exchange which are necessary for the stability of trade also emerge automatically from stable conditions of trade itself. These stable conditions of trade can be created by the appropriate regulation of the minimum wage in each country. Practical experience and theory both indicate that stable conditions can hardly be created otherwise.

With regard to the stability of value of the unit of currency when increases of wages are given in the manner indicated and an increased use of currency may be required as a consequence, the position can be stated briefly as follows. Provided that increases and adjustments of wages are devised so as to secure a nearer approach to conditions of balanced production, the additional currency required *solely for that purpose* will not lower the value of the unit of currency. In the terms of the Quantity Theory of Money, crudely stated: while "the general level of prices" is dependent, broadly speaking, on the "quantity of money in use" and the "quantity of goods sold," the "general level of prices" will not be adversely affected by an increase in the "quantity of money in use" so long as the distribution of the increased money is such as to allow a greater quantity of goods produced to be effectually exchanged for one another over a wider area of the community; and that is what the approach to "balanced wages" achieves.

Enterprise is not lacking when the circumstances of general trade warrant it; and the requisite utilisation of money-credit will follow automatically from the "confidence" which balanced wages and their resulting balanced production will justify *in fact*.

When "wages-credit" is appropriately adjusted to maintain balanced wages in the twofold sense, gold and currency naturally fall into their properly subordinate place as the medium of exchange. The adequate utilisation of money-credit for trade requirements is not essentially dependent upon anything else than the actual and observable foundations of confidence to which appropriately balanced wages must give rise. (The control of money-credit used for excessive speculation is a special problem; but in any case when trade remains stable, speculation is reduced to a minimum.)

Balanced wages in the twofold sense are not only necessary in each country for securing maximum employment for its people, but by balanced wages a country's production

can attain its maximum *potential* capacity. It cannot do so otherwise.

While wage-regulation in accordance with the principles indicated is necessary in any case for the maintenance of stable industry, the conditions in a world of disorder offer certain features requiring special consideration.

In the first place it is desirable if possible that the wage-movements which are the first requisite in each country should be made as far as practicable in all countries together. But in addition there are the special problems of " over-production " of certain primary commodities, and also the heavy legacy of debt from the past.

Generally speaking, " over-production " is merely an example of lack of balance, and would be entirely resolved in due course by wage-regulation throughout in accordance with the principles indicated; but there is an exceptional kind of over-production which must in any case require special treatment, namely, a production which is not only in excess of effective demand, but in excess of real human need. This is said to be the case of wheat, for example.

Quantitative regulation of production of some primary commodities may therefore be desirable. But, as in the case of protective measures in a country's home market, so also with any measures of regulation of production, these are not sufficient without the accompaniment of wage-adjustments devised to secure an approach to " balanced wages " in each country and balanced production throughout.

With regard to the legacy of debt from the past, the problem created by *internal* debt is separate and distinct from the problem created by *external* debt. If it is considered that the burden of internal debt lies too heavily in certain quarters, the question of adjustment must be primarily a political matter, and it can be dealt with independently of the necessity for wage-regulation in accordance with the principles indicated. But external debt, besides being a political matter, has certain unavoidable consequences

in the economic field which have a vital bearing upon the real welfare of all countries concerned, both debtor and creditor. For money transactions across national boundaries have an important influence upon trade itself; and when international money payments are very heavy they necessarily involve disturbances to industry which the creditor country in particular is in all likelihood quite unable to face. The necessity for these disturbances is concealed by the complex conditions of industry when wages are not balanced. If wages were balanced the necessary consequences of international money payments would become more apparent and the limited possibilities of such payments would be revealed. Only by the maintenance of balanced wages in each country can unemployment be reduced to a minimum; and the real capacity of any country to pay debt to another and the capacity of any country to receive the payment can only be determined satisfactorily by relation to the position of each country when balanced wages are maintained in both countries concerned.

Artificial barriers to international trade will be diminished to the minimum when the economic threat to each country arising from the existence of serious unemployment in any other country is itself reduced to the minimum by the attainment and the maintenance of balanced wages in each case.

The maintenance of balanced wages makes it possible to reconcile economic nationalism with internationalism.

The Basis of Action.

I. The first requisite is that an approach be made towards balanced wages in each country by an adjustment of the minimum wages for each industry towards a common minimum for all industries within the country.[1]

II. The approach to a common minimum wage for the whole of industry in each country should be made by increasing the minimum wage of the lowest-paid industries

[1] See note 1 on p. 131.

and not by reducing the minimum wage of the highest-paid industries.

The increases thus brought about in "wages-credit" are the main part, if not the whole, of that "inflation of credit" which is often said to be required. The measure of this inflation that is wanted is indicated by the necessity of balanced wages.

The increases should be carried out gradually so as not to bring disturbance to industry in general.

III. The transition towards the desired goal of internal balance in each country will be made easier if all countries move in the matter together. (But Great Britain is in a position to lead the way.)

IV. Any protection required for home industry should be related to the internal situation created by wage-adjustments previously determined in accordance with the primary necessity of an approach to internal balance.

V. Any quantitative regulation of production which may be decided upon should be accompanied by an increase of wages for the necessarily reduced numbers engaged in the reduced production. The increase in wages for those engaged on the reduced production will bring about the widely-distributed increase of purchasing power which is necessary to enable the unemployed (surplus on account of the curtailment of production and otherwise) to be absorbed.

This is only a particular application of II and III together.

The unit cost of production of the commodities concerned will, of course, be increased when the wages of the labour are increased; but, while this will necessarily increase the price in each case (and international agreement as to the consequent increase in price is therefore necessary between the countries that export the commodities concerned), such price-increases in the commodities that are said to be "over-produced" are generally admitted to be necessary. The argument indicates that increases in the prices of those commodities will not achieve the desired results unless they are accompanied by increases in the wages of labour engaged in the production of the commodities concerned.

VI. The appropriate measure of the rates of exchange between the currencies which are at present unlinked to any standard would best be found by reference to the situation reached when each country's volume of employment is at or about the maximum. But, provided that the progress towards balanced wages in all countries were made at approximately equal pace, the stabilisation of rates of exchange might be satisfactorily achieved at a quite early stage.

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